Supreme Court, U.S.
FILED
06-937 NOV 30 2006
OFFICE OF THE CLERK

No.

In the Supreme Court of the United States

QUANTA COMPUTER, INC., QUANTA COMPUTER USA, INC., Q-LITY COMPUTER, INC., COMPAL ELECTRONICS, INC., BIZCOM ELECTRONICS, INC., SCEPTRE TECHNOLOGIES, INC., FIRST INTERNATIONAL COMPUTER, INC. AND FIRST INTERNATIONAL COMPUTER OF AMERICA, INC.,

PETITIONERS,

v.

LG ELECTRONICS, INC.,

RESPONDENT.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

TERRENCE D. GARNETT
VINCENT K. YIP
PETER WIED
PAUL, HASTINGS, JANOFSKY & WALKER LLP
515 SOUTH FLOWER STREET
25TH FLOOR
LOS ANGELES, CA 90071
(213) 683-6000

Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

MAUREEN E. MAHONEY
Counsel of Record
J. SCOTT BALLENGER
ANNE W. ROBINSON
LATHAM & WATKINS LLP
555 11TH STREET N.W.
SUITE 1000
WASHINGTON, D.C. 20004
(202) 637-2200
Counsel for Petitioners

Additional Counsel Listed on Inside Cover

MAXWELL A. FOX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
34 F ARK MORI BUILDING
P.O. BOX 577
12-32 AKASAKA 1-CHOME
MINATO-KU, TOKYO 107-6034
JAPAN
813 6229 6100

Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

RONALD S. LEMIEUX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
5 PALO ALTO SQUARE
6TH FLOOR
PALO ALTO, CA 94306

Counsel for First International Computer, Inc. and First International Computer of America, Inc.

WILLIAM J. ANTHONY, JR.
ERIC L. WESENBERG
KAI TSENG
MATTHEW J. HULT
ROWENA Y. YOUNG
ORRICK, HERRINGTON
& SUTCLIFFE LLP
1000 MARSH ROAD
MENLO PARK, CA 94025
(650) 614-7400

Counsel for Compal Electronics, Inc., Bizcom Electronics, Inc., Sceptre Technologies, Inc.

QUESTION PRESENTED

Whether the Federal Circuit erred by holding, in conflict with decisions of this Court and other courts of appeals, that respondent's patent rights were not exhausted by its license agreement with Intel Corporation, and Intel's subsequent sale of product under the license to petitioners.

PARTIES TO THE PROCEEDING

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the Federal Circuit Court of Appeals.

The petitioners here and appellees and cross-appellants below are Bizcom Electronics, Inc., Compal Electronics, Inc., and Sceptre Technologies, Inc.; Quanta Computer, Inc., Quanta Computer USA, Inc., and Q-Lity Computer, Inc.; and First International Computer, Inc., First International Computer of America, Inc. The additional appellee below was Everex Systems, Inc.

The appellant and cross-appellee below and respondent here is LG Electronics, Inc.

RULE 29.6 STATEMENT

First International Computer, Inc. is the parent company of First International Computer of America, Inc. No other publicly held company owns 10% or more of the stock of either company.

Quanta Computer, Inc. is the parent corporation of Quanta Computer USA, Inc. and Q-Lity Computer, Inc. No other publicly held company owns 10% or more of the stock of any of those companies.

Compal Electronics is the 100% owner of Bizcom Electronics, Inc. Compal Electronics is the only publicly held company owning 10% or more of Sceptre Technologies, Inc.'s stock.

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OPINIONS BELOW

The opinion of the U.S. Court of Appeals for the Federal Circuit (Pet. App. 1a-25a) is reported at 453 F.3d 1364. Three opinions of the district court are relevant. The first (Pet. App. 26a-51a) is unreported. The second (Pet. App. 52a-61a) is reported at 248 F. Supp. 2d 912. The third (Pet. App. 62a-81a) is unreported.

JURISDICTION

The Federal Circuit denied a petition for rehearing or rehearing *en banc* on September 1, 2006. Pet. App. 82a-83a. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

"[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a).

STATEMENT OF THE CASE

Respondent LG Electronics, Inc. ("LGE") purchased a portfolio of patents for [redacted] and now contends that those patents are infringed by every computer in the world, whenever microprocessors and chipsets are combined with generic components such as busses and memory. A year after its purchase, LGE resolved its standoff with Intel Corporation ("Intel") by negotiating a [redacted] license payment from Intel that gave Intel an unrestricted right to "make, use, [and] sell" products incorporating LGE's patents. LGE insisted, however, that Intel send a "notice" to its own customers purporting to inform them that Intel's license did not protect *them* from infringement suits if they actually used microprocessors or chipsets purchased from Intel in a computer. The district court correctly found that Intel had every right under its license to make and sell chips to petitioners—and that the only reasonable use of those products was to incorporate them into computers in the manner that LGE now contends is infringing.

Under the patent exhaustion doctrine that this Court has applied for more than 90 years—since *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), was overruled by *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917)—an authorized first sale of a patented article exhausts the patent owner's rights in that article, and nullifies any "conditions" that the patent owner has tried to attach to its use or resale. Beginning with its decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), however, the Federal Circuit has steadily eroded the exhaustion doctrine. In this decision the Federal Circuit held that exhaustion is entirely optional, and easily nullified by a "notice" announcing that the patent owner would prefer that it not apply. That is an unprecedented and extremely dangerous expansion of the patent monopoly, in direct conflict with numerous decisions of this Court.

This case is important on several levels. First, on these specific facts LGE is now holding the entire computer industry hostage for billions of dollars in duplicative royalties, on patents that under this Court's precedents have clearly been exhausted. Second, on a broader level the Federal Circuit's new jurisprudence of "notice" restrictions threatens to usher in a new era of servitudes and restraints on alienation running with chattels, by which patent owners attempt to suppress competition and control the use of patented goods after an authorized first sale. If LGE's tactics are not rejected now, they are likely to spread through the economy like the common cold—producing decades of litigation over "notice" restrictions stamped on sold goods such as "single use only," "for use only with Microsoft software," "cannot be resold for less than $1000," and anything else that patent owners can dream up.

Statement of Facts

The basic facts are undisputed. On May 3, 1999, LGE purchased a portfolio of more than [redacted] U.S. and foreign patents and patent applications for less than [redacted] in

contemporary U.S. dollars. A4701.028; A4701.070-4701.079.[1] LGE contends that every computer that contains Intel chips infringes up to four of these patents. (LGE also contends that computers containing *non-Intel* chips infringe, but those computers are not at issue in this petition.)

Petitioners are original equipment manufacturers of computers and file servers, who purchase licensed microprocessors and chipsets from Intel and incorporate them into computers in exact accordance with the specifications they receive from Intel. Petitioners in no way modify the chips after purchasing them and, indeed, have no choice but to follow Intel's specifications because they have no way of knowing the specifics of the chips' internal designs, which Intel protects as trade secrets. Once Intel's chips are incorporated into them, the computers petitioners make are then sold in the U.S. and around the world to companies such as Dell, HP, IBM, and Gateway.

Under pressure from LGE's extraordinary infringement claims, on September 7, 2000 Intel agreed to pay LGE [redacted], in exchange for the complete and unrestricted right to make, use, sell, offer to sell, import or otherwise dispose of its own products free from LGE's patent claims. A3605-3632(§3.2); A3578.142-3578.143(¶¶6,7). The "make, use, [and] sell" phrasing is a term of art in patent law, which encompasses the entire scope of the exclusionary rights granted to a patent owner. Nonetheless, in a separate agreement with LGE, Intel agreed to send a "notice" to its own customers, purporting to inform them that they did not receive any "license" from LGE to use products purchased from Intel in any product made "by combining an Intel product with any non-Intel product." A3632. In its own license agreement, however, Intel negotiated a proviso that "[n]otwithstanding anything to the contrary contained in this Agreement, the

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[1] All citations to record evidence are to material in the Joint Appendix ("A") that was before the Federal Circuit.

parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products." A3614(¶3.8). The separate agreement under which Intel agreed to send the "notice" to its customers also provides that "a breach of this Agreement shall have no effect on and shall not be grounds for termination of the Patent License." A3622(¶1).

Pursuant to its side agreement with LGE, and *after* many of the sales at issue here had already occurred, Intel sent the demanded "notice" letter to petitioners. LGE sued petitioners, alleging that they cannot actually use the computer chips they bought from Intel in any computer (even though the chips were made and sold under a valid license, and even though their use is the one called for by Intel's own specifications) without infringing LGE's patents. Petitioners have no way to evaluate that claim because, again, Intel protects the design and operation of its chips as a trade secret. LGE has also targeted more than 70 other major companies whom it insists must pay it a second round of royalties before they may use Intel chips in computers.

Proceedings Below

Between late 2000 and Spring 2001, LGE brought separate suits against petitioners in the United States District Court for the Northern District of California, alleging that petitioners (and another company with whom LGE has since settled) infringe six of LGE's patents on computer technology. The District Court consolidated all of the cases for pretrial purposes. Five of the original patents at issue (U.S. Patent Nos. 4,918,645, 4,939,641, 5,077,733, 5,379,379 and 4,926,419) relate to technology allegedly used in microprocessors and memory controllers made by Intel and its competitors. Following the Court's claim construction decision, LGE dropped its allegations of infringement with respect to U.S. Patent No. 4,926,419, leaving four Intel-related patents at issue. In the District Court, LGE contended that the essential features of these four patents are found in Intel's chips, and that the patents

are infringed by merely combining Intel chips with generic components such as busses and memory.

On August 20, 2002, the District Court issued a carefully reasoned opinion and Order granting petitioners' motion for partial summary judgment of non-infringement on the ground that LGE's unrestricted license to Intel and Intel's subsequent sale of chips to petitioners exhausted LGE's rights to recover royalties with respect to those chips. Pet. App. 32a-45a. The district court found as a fact that, if LGE's broad infringement contentions were correct, there could be no reasonable use of Intel's chips that did not infringe LGE's patents. *Id.* at 45a-49a. Relying on the patent exhaustion doctrine discussed at length in this Court's decision in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), the District Court held that LGE's patent rights had been exhausted and that LGE's demand for additional royalties from petitioners was an impermissible attempt to extend the patent monopoly and obtain a double royalty on the same patents. *Id.* at 50a, 40a, 32a.

LGE requested reconsideration, and the District Court issued another Order on February 6, 2003, upholding the finding of exhaustion with respect to LGE's apparatus claims but holding that the *method* claims in those same patents were not exhausted even though they essentially covered the mere use of the device claimed in the exhausted apparatus claims. *Id.* at 57a-61a. It concluded that method claims could never be exhausted, relying on language from two Federal Circuit decisions, *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984), and *Glass Equipment Development, Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999). *Id.* at 61a.

In Spring 2004, petitioners moved for summary judgment of non-infringement. The District Court granted petitioners' motion in late 2004 and entered a final judgment against LGE in January 2005. LGE appealed each of the District Court's rulings to the Federal Circuit. Petitioners cross-appealed on several grounds, including the holding that LGE's method claims were not exhausted.

On appeal, petitioners argued, *inter alia*, that LGE cannot nullify the patent exhaustion resulting from LGE's unrestricted license to Intel and Intel's subsequent licensed sales to petitioners simply by having Intel notify petitioners, post-sale in some instances, that they do not receive a license from LGE to use the products purchased from Intel for their only reasonable use. Petitioners argued that, because LGE imposed no restrictions on Intel's rights to practice the licensed patents (and, indeed, explicitly recognized the applicability of the patent exhaustion doctrine in the license agreement), LGE cannot ignore the unrestricted license it granted to Intel and attempt to restrict the activities of Intel's *customers*.

The Federal Circuit reversed. It held that the patent exhaustion doctrine applies only to "unconditional" sales, and that the "notice" Intel agreed to send to its customers imposed a "condition" on the sale that the patent exhaustion doctrine would not apply. Pet. App. 5a-6a. The Federal Circuit implied that petitioners had agreed to such a "condition" by failing to object to Intel's "notice" under New York's version of the U.C.C. "battle of the forms" provision, *Id.* at 6a. (The Federal Circuit did not actually discuss New York law, or explain why New York law should govern). It also held that, even if the sales in question were not "conditional," the exhaustion doctrine would not apply to LGE's method claims because "the sale of a device does not exhaust a patentee's rights in its method claims." *Id.*

REASONS FOR GRANTING THE WRIT

This Court has consistently held for more than a century that no patent owner is entitled to more than one royalty on the sale of a patented article, and that an authorized first sale fully exhausts the patent owner's rights with respect to that article during its ordinary useful life. The patent owner's "monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Univis Lens*, 316 U.S. at 250. An

authorized sale exhausts the patent owner's rights in any device patents infringed by the article itself, and in any method or combination patents that will be infringed by the only reasonable use of the sold article. "An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* at 249. Consistent with those principles, this Court has held that purchasers may not be sued for patent infringement for violating a "notice" that purports to restrict the usage or resale of goods after an authorized sale.

By contrast, a patent owner *may* place restrictions on manufacturing licensees. As this Court explained in 1926,

> [i]t is well settled ... that where a patentee makes the patented article and sells it, he can exercise no further control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. But the question is a different one ... when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell.

United States v. Gen. Elec. Co., 272 U.S. 476, 489-90 (1926) (citations omitted). Just as a patent owner who manufactures its own product may decide to whom it will sell, a patent owner may (within limits imposed by antitrust and misuse law) tell its licensees which customers they may sell to—and may enforce knowing violations of such restrictions through infringement suits. *See, e.g., Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938). A sale made in violation of a valid license restriction is not an authorized sale, and does not trigger exhaustion.

Unfortunately, this Court's early exhaustion cases are notoriously confusing, and this Court has not spoken to the issues for more than half a century. The distinction between *sales* and *licenses* has also been muddied by the advent of

computer software. Because a new, potentially infringing, "copy" of computer software is created every time that software is loaded into memory, software must always be licensed, not sold. Software makers have taken advantage of the resulting opportunity to impose various use and resale restrictions in their licenses. But physical goods like cars and toasters and books cannot be burdened with "notices" providing that they may be used only in particular ways, or cannot be resold, because the patent exhaustion doctrine, and similar "first sale" doctrines in copyright and other areas of intellectual property law, prohibit restraints on use or alienation after a valid sale.

In a series of decisions beginning 14 years ago with *Mallinckrodt* and culminating here, the Federal Circuit has eviscerated all of these traditional distinctions. In this case it is undisputed that Intel *sold* microprocessors and chipsets to petitioners—*i.e.*, petitioners did not *license* anything. It is undisputed that all of those sales were fully authorized by LGE through the license it gave to Intel. The district court also correctly found that the sold products have no reasonable use that would not infringe the combination and method patents that LGE now seeks to enforce. On traditional principles, there has been an authorized first sale and LGE's patent rights are exhausted. Instead, the Federal Circuit held that the exhaustion doctrine applies only to "unconditional" sales, and that these sales were "conditional" because the circumstances indicated that LGE did not intend to convey an "implied license" to petitioners.

That holding is a nonsensical jumble of mismatched principles. Licenses may be conditional, but there has been no such thing as a conditional *sale* since this Court overruled *A.B. Dick* in 1917. Petitioners do not need a license, implied or otherwise, because LGE's patents have been exhausted. That is not a question of what LGE intended, but of the substantive scope of the patent monopoly. Exhaustion has never (until now) been just a default rule that patentees could opt out of by sending a "notice" to purchasers.

The *Mallinckrodt* decision and its progeny have been

the subject of harsh scholarly criticism. One commentator pointed out that it "overrul[ed] a century of Supreme Court decisional law under the exhaustion doctrine." Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in U.S. Patent Law: Mallinckrodt v. Medipart*, 15 Eur. Intell. Prop. Rev. 460, 461 (1993). He was led to wonder whether "the Federal Circuit panel simply ha[d] its own notion of whether it or the Supreme Court is in charge?" *Id.* at 464. Another wrote that the Federal Circuit has "vitiate[d] a distinction between sale and license which had grown to be well accepted" and "create[d] a confusing *melange* in which exhaustion, misuse, and antitrust principles are all conflated although all have somewhat different origins and purposes." James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Pat. & Trademark Ofl. Soc'y 550, 554 (1993). Even Judge Gajarsa worried in print that this line of precedent from his own court could usher in a "conceptual collapse of contract law and property law." Arthur J. Gajarsa et al., *How Much Fuel to Add to the Fire of Genius? Some Questions About the Repair/ Reconstruction Distinction in Patent Law*, 48 Am. U. L. Rev. 1205, 1229-30 (1999) (capitalization altered).

The facts of this case illustrate the pernicious consequences of the Federal Circuit's new, optional version of the exhaustion doctrine. LGE purchased these patents as part of a portfolio of [redacted] different patents and patent applications, for which it paid less than [redacted]. Intel paid LGE approximately [redacted] for a license that gives Intel an unlimited right to practice the patents. LGE now contends that Intel's *customers* need to pay LGE again before incorporating those microprocessors and chipsets into computers—which is, of course, their only reasonable use. LGE contends that every computer in the world infringes these patents, and is attempting to shake down the entire computer industry for several billion dollars in duplicative licensing fees. If computer manufacturers relent and agree to purchase a license from LGE, LGE may next

insist that they too send a "notice" informing consumers that they do not have any "implied license" from LGE, and must obtain a third license before turning any computer on. This is precisely the sort of mischief that the patent exhaustion doctrine has always been designed to prevent.

More broadly, the Federal Circuit's new jurisprudence threatens to kick off a new era of "notices" attached to sold goods. Obvious candidates include "single use only," "no use outside of Massachusetts," "no repair," "no resale," or "no resale for less than the price of purchase." Under the Federal Circuit's rule, patent owners may use such notices to extend territorial division and resale price maintenance schemes from distributors down to end consumers, and to eliminate competition from aftermarket resales of the patented good. Violation of such arbitrary restrictions will subject the consumer to the full range of damages available under the patent laws for infringement. The Federal Circuit has suggested that some notices may not be effective, if they are not "reasonably within the patent grant" or "venture[] beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Mallinckrodt*, 976 F.2d at 708. Against the backdrop that traditional patent law would not have permitted *any* of these conditions, such vague caveats are (at best) an invitation to decades of wasteful litigation.

The Federal Circuit's holding in this case is flatly inconsistent with precedents of this Court and other courts of appeals, and expands the patent monopoly beyond all reasonable bounds. It threatens to entangle the free flow of commerce with restraints on the use and alienation of chattels that have not been permitted by this Court for almost 90 years. And the Federal Circuit's exclusive jurisdiction over patent appeals means that further percolation in the lower courts is now impossible. This Court's intervention is urgently needed.

I. UNDER THIS COURT'S PRECEDENTS, AN AUTHORIZED SALE EXHAUSTS THE PATENT OWNER'S RIGHTS IN THE SOLD ARTICLE

It has been clear since at least 1917 that an authorized first sale of a patented article exhausts the patent holder's rights in that article, and that "notices" purporting to reserve such rights are void. As one commentator put it:

> Until the Federal Circuit's *Mallinckrodt* decision, an unbroken line of Supreme Court and lower court precedents held that the patentee's patent right over a product that the patentee sold (or that a licensee authorised to make a sale sold) ended at the point of sale. Accordingly, a customer did not commit patent infringement by disobeying a notice, contract, or other "remote control" limitation that the patentee sought to impose on the use of goods that it had sold to the customer.

Stern, 15 Eur. Intell. Prop. Rev. at 461. The doctrine took several twists and turns during its early development, however, so an overview of this Court's cases is essential to understanding where the Federal Circuit has gone astray.

The tension and confusion in the early cases is illustrated by two decisions of this Court from 1873. In *Adams v. Burke*, 84 U.S. 453 (1873), widely regarded as the leading case on patent exhaustion, the owner of a patent on coffin lids granted exclusive territories to various dealers. When an undertaker purchased coffin lids within one territory and used them in another, the patent owner sued for infringement. This Court rejected that claim, holding that:

> in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use

> of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.

Adams, 84 U.S. at 456 (footnote omitted).

On the other hand, in *Mitchell v. Hawley*, 83 U.S. 544 (1873), that same year, the defendants had bought patented machines from the patent owner's licensee. The seller's license agreement provided that he had no authority to "'dispose of, sell, or grant any license to use the said machines beyond the expiration' of the original [patent] term." 83 U.S. at 549. When the patent term was later extended and purchasers continued using the machines during the extension period, the patent owner sued them for infringement. This Court reasoned that patented goods may be sold "with or without conditions," *id.* at 548, and that because the licensee had no title or authority to grant any right to use the patent beyond the original term, purchasers from him could not have acquired such a right, *id.* at 550-51.

After *Adams* and *Mitchell* the exhaustion doctrine remained unsettled for decades. In *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), this Court considered an exclusive territories case very similar to *Adams*, with the wrinkle that the licensee *knew* that the purchaser intended to use the goods outside of his territory. This Court held that the seller's knowledge was irrelevant, and that a

> brief history of the cases shows that ... as between the owner of a patent on the one side, and a purchaser of an article made under the patent on the other, the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent throughout the entire life of the patent.

157 U.S. at 666. This Court held that under patent law "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place." *Id.*

It noted that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion." *Id.* But this Court emphasized that "[i]t is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Id.* That clarification appears to be inconsistent with *Mitchell*, which suggested that conditions imposed on end-users could be enforced *under the patent laws*, via suits for infringement.

The early cases were much less ambivalent about conditions imposed on *manufacturing licensees*, restricting the terms under which they were authorized to make and sell the product. In *Bement v. National Harrow Co.*, 186 U.S. 70, 91 (1902), for example, this Court stated that "the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts." In *Bement* this Court upheld a resale price restriction imposed on a manufacturing licensee. "The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article." *Id.* at 93.

These cross-currents came to a head in *A.B. Dick* in 1912. The patentee sold a mimeograph machine stamped with a notice that said "This machine is sold by the A.B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink, and other supplies made by A.B. Dick Company, Chicago, U.S.A." 224 U.S. at 11. A supplier who sold ink to a purchaser of the machine was sued for contributory infringement, and defended on the ground that the restriction was either invalid on exhaustion grounds or (as suggested in *Keeler*) at most enforceable only in an action for breach of contract. This Court rejected those arguments, and in the process recast the entire exhaustion

doctrine as a waivable *implied license* to use the product. "If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale." *Id.* at 24. But this Court reasoned that "if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee," and that "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 24-25. So long as the purchaser had notice, this Court indicated (citing *Bement*) that virtually any condition imposed on purchasers would be upheld. *Id.* at 47. This Court viewed the restriction in *A.B. Dick* as a legitimate adjunct to the patent owner's strategy for capitalizing on his patent, which was apparently to sell the machines at cost and make money on the ink. *Id.* at 32.

The clear rule of *A.B. Dick* was, however, extremely short-lived. The next year, in *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913), this Court held that a "notice" stating that the product "is licensed by us for sale and use at a price not less than one dollar" could not be enforced against retailers selling the product for less. This Court noted that it had refused to enforce similar notices under the copyright statute, on the ground that an authorized first sale of a book exhausts the copyright, *see Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), and reasoned that "there is a strong similarity between and identity of purpose in the two statutes" in their implementation of the exclusive right to *sell* the patented or copyrighted good. *Bauer*, 229 U.S. at 12-13. This Court distinguished *A.B. Dick* as involving a restriction on the purchaser's right to *use*, which has no equivalent in the copyright statute. *Id.* at 13-15. It also dismissed as a "mere play on words" and "perversion of terms" the patent owner's attempt to cast the restriction as a limitation on *use* as opposed to *resale*. *Id.* at 16; *see also Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 498 (1917) (use notice was "a disguised attempt to control the prices of its machines after they have been sold and paid for").

The *A.B. Dick* rule was laid completely to rest in 1917 in *Motion Picture Patents*, in which a notice purported to restrict movie projectors to use only with film leased from the patent owner, and subject to "other terms to be fixed by the [patent owner]." 243 U.S. at 506. This Court stated that the issue, "which is arising with increasing frequency in recent years," was "the extent to which a patentee or his assignee is authorized ... to prescribe by notice attached to a patented machine the conditions of its use ..., under pain of infringement of the patent." *Id.* at 509. This Court noted that *A.B. Dick* and its predecessors had "led to an immediate and widespread adoption" of use restrictions, which had evolved in this case into "[t]he perfect instrument of favoritism and oppression." *Id.* at 515. This Court cited with approval the reasoning of *Bauer* that, by analogy to copyright, "the right to vend is exhausted by a single, unconditional sale." *Id.* at 516. But this Court abandoned *Bauer*'s attempt to preserve the holding of *A.B. Dick* by distinguishing "use" rights from "vend" rights. "The statutory authority to grant the exclusive right to 'use' a patented machine is not greater, indeed it is precisely the same, as the authority to grant the exclusive right to 'vend'" the patented article. *Id.* This Court held that the notice was invalid, and that *A.B. Dick* was expressly overruled. *Id.* at 518. It also endorsed the earlier reasoning from *Keeler* that "[t]he extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law," and that any such right "must be derived from the general [contract law] and not from the patent law." *Id.* at 509 (citing *Keeler*, 157 U.S. at 659); *see also id.* at 513.

Although *Motion Picture Patents* indicated that "notice" restrictions imposed on *purchasers* are (by analogy to copyright) not enforceable through infringement suits, this Court remained receptive to explicit conditions imposed on manufacturing *licensees*. In *General Electric*, this Court explained that it was "well settled" that a patent owner "can

exercise no future control over what the purchaser may wish to do with the article" after an authorized sale, but that "the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell." 272 U.S. at 489-90. This Court explained that *Motion Picture Patents* had overruled *A.B. Dick* but not *Bement*, and that the cases invalidating restrictions on purchasers did not apply to restrictions in manufacturing licenses. *Id.* at 493. Cases like *Bauer* and *Victor Talking Machine*, this Court wrote, "are only instances of the application of the principle of *Adams v. Burke* ... that a patentee may not attach to the article made by him, or with his consent, a condition running with the article in the hands of purchasers." *Id.* at 493-94.

In *General Talking Pictures* in 1938, this Court held that if a purchaser knowingly buys from a manufacturing licensee in violation of a restriction in the license, both the licensee and the purchaser may be sued for infringement. This Court explained that a sale that is not authorized by the license is not a sale "made under the patents," and that therefore the purchaser was not "a purchaser in the ordinary channels of trade" and exhaustion did not apply. 304 U.S at 180-81. This Court thus declined to consider whether a use restriction stamped on the product could have been enforced against an *authorized* purchaser. *Id.* at 182.

This Court's last significant pronouncement on the exhaustion doctrine is *Univis Lens*. Univis Lens owned several patents for making eyeglass lenses. It produced lens blanks, and sold them to three categories of licensees. Wholesalers ground the lenses and resold them to prescription retailers. Finishing retailers ground their own lenses, mounted them in glasses, and sold directly to consumers. Prescription retailers purchased ground lenses from wholesalers, mounted them into glasses, and sold them to consumers. Univis Lens had license agreements with all three groups that restricted to whom, and for how much, they could sell. It took all its profits from a 50-cent royalty

on each lens blank it sold. 316 U.S. at 243-45. This Court held that the price restrictions in the licenses "derive[d] no support from the patent" and were invalid. *Id.* at 251.

This Court emphasized that "where the sale of the blank is by the patentee or his licensee ... to a finisher, the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer." *Id.* at 249. It explained that "upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold," *id.*, and that "sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article," *id.* at 250. This Court therefore held that the sale of the lens blanks to wholesalers and finishers exhausted the patent holder's rights. "[W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article." *Id.* at 250-51. *Univis Lens* remains the authoritative precedent from this Court on exhaustion.

II. THE FEDERAL CIRCUIT HAS EVISCERATED THE PATENT EXHAUSTION DOCTRINE

A. LGE's Patent Rights Have Been Exhausted

The Federal Circuit held in this case that LGE's patent rights were not exhausted because LGE's license to Intel, and Intel's sale to petitioners, were "conditional." The "condition" in question was LGE's purported reservation of the right to sue petitioners for infringement if they did not obtain a separate license from LGE. In other words, LGE authorized Intel to "make, use, [and] sell" its products subject to the "condition" that such sales would not exhaust LGE's patent rights as against downstream purchasers. That holding is inconsistent with *Univis Lens*. Indeed, the Federal Circuit has embraced the discredited reasoning of

A.B. Dick, which this Court overruled nearly a century ago.

It is undisputed that the products at issue—chipsets and microprocessors—were *sold* by Intel to petitioners under the authority of Intel's license from LGE. Neither LGE nor the Federal Circuit have ever suggested that Intel's sales to petitioners were unauthorized and constituted infringement, as in *General Talking Pictures*. The district court also correctly found that these products have no reasonable use that would not infringe the combination and method patents that LGE now seeks to enforce. The Federal Circuit did not disagree. "[U]pon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Univis Lens*, 316 U.S. at 249. And the chips sold by Intel clearly embraced the "essential features" of the asserted patents, which LGE contends are infringed merely by combining the chips with generic components such as memory. *Id.* at 250-51. LGE's patent rights have actually been exhausted twice, because (as the Federal Circuit acknowledged) a license granting the complete right to "make, use, [and] sell" also "constitutes a sale for exhaustion purposes." Pet. App. 5a. (citing *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942)).

The Federal Circuit reasoned that exhaustion applies only after an "unconditional sale," *id.*, and that both of the sales here were "conditional" because Intel separately promised to send its customers a notice informing them that they were not licensed by LGE to use products purchased from Intel in combination with non-Intel components (i.e., for their only reasonable use). But that is flatly inconsistent with *Univis Lens*. The purchasers in *Univis Lens* were bound by explicit license agreements in which they made a variety of promises that restricted their use and resale of the patented goods. In the Federal Circuit's rubric, those sales were clearly "conditional." Nonetheless this Court held that all of those "conditions" were void because the patent owner had sold a component that was "capable of use only in practicing the patent," which "upon familiar

principles ... is a relinquishment of the patent monopoly with respect to the article sold." 316 U.S. at 249. The notice sent by Intel to petitioners therefore purports to reserve rights in LGE that, as a matter of law, simply do not exist.

Even if "conditions" on the use of sold goods were sometimes enforceable, the Federal Circuit's reasoning in this case would be deeply flawed. Indeed, this decision illustrates the extent to which the Federal Circuit will distort legal principles in order to maximize patent rights.

First, a "condition" that purchasers not use a product for its only reasonable use is absurd and unconscionable. Even commentators friendly to permitting servitudes on chattels recognize that such restrictions could be justified only as a way to facilitate price discrimination between higher and lower valued uses. *See* Thomas Arno, *Use Restrictions and the Retention of Property Interests in Chattels Through Intellectual Property Rights*, 31 San Diego L. Rev. 279 (1994). A restriction purporting to bar usage of a product for its *only* reasonable use is a confession of contractual bad faith, and serves no social purpose whatsoever. This Court recognized as much in *Univis Lens*, when it held that a sale of the product necessarily exhausted any patent covering its sole reasonable use—even though the parties' actual agreements and expectations were plainly to the contrary.

Second, the first sale here (LGE's grant of a complete license to "make, use, [and] sell" to Intel) was not conditional at all, and even if it was, the conditions were satisfied. Intel's promise to send a "notice" to purchasers informing them of LGE's legal position was not a condition of Intel's license; it does not even appear in the license but instead in a separate agreement between Intel and LGE, which also specified that "[t]he parties agree that a breach of this Agreement shall have no effect on and shall not be grounds for termination of the Patent License." A3622(¶1). Regardless, it is undisputed that Intel kept its promise.

Third, the second sale (from Intel to petitioners) was also unconditional. Perhaps recognizing that patent holders are no longer permitted to unilaterally restrict the usage of

sold goods as a matter of patent law, the Federal Circuit strains to find a *contractual promise* by petitioners not to use the products without securing a license from LGE. But the district court correctly found that "Defendants' purchase of microprocessors and chipsets from Intel was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resulting products," and that while the notice letter might negate the implication of an implied license it "is not sufficient to transform what would otherwise be the unconditional sale of the microprocessors and chipsets into a conditional one." Pet. App. 58a, 59a.

In cases like this, the Federal Circuit reflexively invokes the U.C.C. "battle of the forms" provision to find an enforceable contract, without actually examining the relevant state law. *See, e.g., Mallinckrodt*, 976 F.2d at 708 n.7. As commentators have pointed out, the Federal Circuit "can reach that result only by mutilating contract law." Julie E. Cohen & Mark Lemley, *Patent Scope and Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 33-34 (2001).[2] But the more critical point is that even if there were a contractual promise by petitioners not to use these products for their only reasonable use, the enforceability and effect of that promise would—as explained in *Keeler* and *Motion Picture Patents*—be a question for general contract law. Breach of contract might give rise to an action for contract damages, but not for patent infringement. By suing for infringement the patentee is not seeking to enforce

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[2] The Federal Circuit assumes that the patent holder is the accepting rather than offering party in the "battle of the forms," even though "the opposite conclusion seems more logical." 89 Cal. L. Rev. at n.130. It also ignores the statutory proviso that such terms become part of the contract only if they do not "materially alter" the bargain. *Id.* A promise not to use the product for its only reasonable purpose is clearly material. *See* Kobak, 75 J. Pat. & Trademark Off. Soc'y at 563 n.50. Petitioners buy these chips to incorporate them into computers, which are then sold; the idea that they can be retroactively liable for infringement because of a notice received *later* is outrageous, and clearly a material alteration.

any contract promise, but to rescind the authorized sale and proceed under what the law would have been absent the contract. But rescission requires a "material" breach, which under New York law means a breach "so substantial and fundamental as to strongly tend to defeat the object of the parties in making the contract." *Callanan v. Powers*, 199 N.Y. 268, 284 (1910). Obviously any such promise was not the principal "object" of the contract between Intel and LGE. And under basic principles of restitution and election of remedies, a party seeking rescission must also give up the benefits of the contract and attempt to restore the *status quo ante* so far as is possible. *See, e.g.*, Restatement (Second) of Contracts § 384 (1981). The Federal Circuit allows the patent holder to retain all of the benefits of its bargain while pretending that the license contract does not exist. That is wholly inconsistent with contract principles.

Finally, the Federal Circuit also held in this case that even if these sales *were not* "conditional," exhaustion would not apply to LGE's method patent claims because "the sale of a device does not exhaust a patentee's rights in its method claims." Pet. App. 6a. That too is inconsistent with *Univis Lens*. At least one of the patents held exhausted in *Univis Lens* was a pure method patent. *See United States v. Univis Lens Co.*, 41 F. Supp. 258, 262-63 (S.D.N.Y. 1941) (explaining that asserted U.S. Patent No. 1,869,769 covered "only a method for producing a lens to eliminate prismatic imbalance"), *aff'd in part and rev'd in part*, 316 U.S. 241 (1942). This Court's holding was that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." 316 U.S. at 249.

The Federal Circuit's decision in this case represents an odd jumble of mismatched and poorly understood principles, the end result of which is to render this Court's decisions in *Univis Lens* and *Motion Picture Patents* dead letters—and to revive the legal regime this Court rejected in *A.B. Dick*.

B. The Federal Circuit's Exhaustion Jurisprudence Is Inconsistent With This Court's Precedents And Decisions Of The Other Courts of Appeals

The Federal Circuit's holding in this case is not a one-time error, but the culmination of a line of decisions that have steadily eroded the exhaustion doctrine and authorized patent owners to impose "notice" restrictions on sold goods.

The Federal Circuit's departure from the principles laid out in this Court's cases began in its 1992 *Mallinckrodt* decision. In *Mallinckrodt*, the patent owner sold a medical device called a "nebulizer" to hospitals, stamped with a "single use only" notice. The devices were in fact capable of multiple uses, and hospitals sent them to Medipart for reconditioning. The patent owner sued Medipart for infringement, and in a thoughtful opinion the district court examined this Court's precedents and correctly held that the "single use only" restriction was void on exhaustion grounds. *Mallinckrodt, Inc. v. Medipart, Inc.*, 15 U.S.P.Q.2d (BNA) 1113 (N.D. Ill. 1990), *rev'd in part, vacated in part, remanded by* 976 F.2d 700 (Fed. Cir. 1992). Mallinckrodt argued that under *General Talking Pictures* a patent owner may impose conditions on the sale of goods and enforce those conditions through infringement suits—and that contrary cases such as *Bauer*, *Motion Picture Patents*, and *Univis Lens* should be understood as antitrust decisions simply rejecting particular conditions as anticompetitive. *See id.* at 1118 ("Mallinckrodt urges that *Motion Picture Patents* is a tying case, plain and simple ...."). The district court rejected that interpretation, "not only because the[] language [of this Court's cases] suggests broader application, but because there is a strong public interest in not stretching the patent laws to authorize restrictions on the use of purchased goods." *Id.* at 1119. It concluded that regardless of "whether Mallinckrodt's 'Single Use Only' restriction might be enforceable on a legal theory other than patent infringement," such as breach of contract, it "is not enforceable under the patent laws." *Id.* at 1119-20.

The Federal Circuit reversed. It agreed with

Mallinckrodt that *Bauer*, *Motion Picture Patents* and *Univis Lens* established only "that price-fixing and tying restrictions accompanying the sale of patented goods were per se illegal. These cases did not hold, and it did not follow, that all restrictions accompanying the sale of patented goods were deemed illegal." *Mallinckrodt*, 976 F.2d at 704. The Federal Circuit stated that this Court's cases did not displace "the rule of contract law that sale may be conditioned," and that "[u]nless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law ...), private parties retain the freedom to contract concerning conditions of sale." *Id.* at 708. "The appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Id.*

As noted above, *supra* p. 9, commentators have been harshly critical of the *Mallinckrodt* decision. The Federal Circuit's reasoning in *Mallinckrodt* and subsequent cases (including this one) suffers from several serious flaws. First, it has essentially collapsed the patent exhaustion doctrine into the separate and distinct doctrine of *implied license*, which governs whether a sale of an article impliedly grants the purchaser a right to use that article in a manner that may infringe a patent. The implied license doctrine is somewhat broader and more factbound than exhaustion:

> Generally, when a seller sells a product without restriction, it in effect promises the purchaser that in exchange for the price paid, it will not interfere with the purchaser's full enjoyment of the product purchased. The buyer has an implied license under any patents of the seller that dominate the product or any uses of the product to which the parties might reasonably contemplate the product will be put.

Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp., 123 F.3d 1445, 1451 (Fed. Cir. 1997). Because implied license is an inference about the parties' contractual intent,

it may be disclaimed through contract language. But a purchaser's implied right to practice patents covering any "reasonably contemplate[d]" use is very different from the related exhaustion principle that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Univis Lens*, 316 U.S. at 249.

By permitting patent owners to "opt out" of exhaustion simply by expressing a desire that it not apply, the Federal Circuit has destroyed that distinction. Commentators have rightly warned that this shift "could signal the death of the exhaustion doctrine, at least in any case where the patentee is smart enough to unilaterally (or after the fact) characterize the sale as a limited license instead." Cohen & Lemley, 89 Cal. L. Rev. at 33-34; *see also* Stern, 15 Eur. Intell. Prop. Rev. at 461 (explaining that in *Mallinckrodt* a "century or more of exhaustion doctrine law was suddenly swept away, and the rule permitting limited-scope licenses swallowed up the exhaustion doctrine"). This is precisely the discredited reasoning of *A.B. Dick*, where a majority of this Court briefly embraced the notion that exhaustion was "nothing more nor less than an unrestricted license presumed from an unconditional sale." 224 U.S. at 24. This Court rejected that entirely contractual view of the exhaustion doctrine in *Motion Picture Patents*, and then again in *Univis Lens*. Again, it was perfectly clear from the conditional license agreements in *Univis Lens* that the patent owner in that case *did not* intend to grant its purchasers any right to use the lenses free of conditions. Nonetheless this Court held that the conditions imposed by the licenses were invalid because of the exhaustion doctrine.

Second, the Federal Circuit has essentially eliminated the traditional distinction between licenses and sales generally that this Court described as "well settled" as early as the *General Electric* case in 1926. 272 U.S. at 489-90. Properly understood, *General Talking Pictures* holds that breach of a condition in a manufacturing license permits an infringement suit against both licensee and purchaser,

because exhaustion is triggered only by an *authorized* sale. That rule is necessary to maintain symmetry with the fact that a patent owner who chooses to manufacture its own products can always decide which customers to sell to, and which not to sell to. But under *Motion Picture Patents* and *Univis Lens*, breach of a condition imposed on a *purchaser* has no effect at all—at least not under the patent laws.

"The distinction between sales and manufacturing licenses can be very fine .... Nonetheless US case law has always maintained the distinction as critical." Stern, 15 Eur. Intell. Prop. Rev. at 462. Court of appeals cases pre-dating the Federal Circuit's creation correctly applied that distinction. For example, in *Hensley Equipment Co. v. Esco Corp.*, 383 F.2d 252, 263, *amended*, 386 F.2d 442 (5th Cir. 1967), the Fifth Circuit held that the "[p]atent monopoly is 'exhausted' by the first authorized sale of the patented item, and the patent law does not protect attempts by the patentee or his licensees to control use of the product after such sale." Therefore a manufacturer cannot "restrict persons to whom an article may be traded after the manufacturer has parted with dominion over it." *Id.* By contrast, the courts of appeals followed *General Talking Pictures* to hold that restrictions on the right to sell imposed on manufacturing licensees were enforceable. *See, e.g., In re Yarn Processing Patent Validity Litig.*, 541 F.2d 1127, 1135 (5th Cir. 1976) ("[T]he restrictions on sale were within the scope of the patent grant because they were applied to a manufacturing licensee and not a purchaser of the patented articles ...."), *cert. denied*, 433 U.S. 910 (1977); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 176 F.2d 799, 803 (1st Cir. 1949) (enforcing restriction against licensee, and noting that "[t]here may be circumstances under which a notice of restricted use would be inoperative and unenforceable as against subsequent purchasers, but that problem is not presented in the case at bar"), *aff'd*, 339 U.S. 827 (1950), *overruled on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Armstrong v. Motorola, Inc.*, 374 F.2d 764, 774 (7th Cir. 1967) (permitting restriction on

manufacturing licensee), *cert. denied*, 389 U.S. 830 (1967).

The Federal Circuit has nullified this long-standing distinction in patent law. *See, e.g.*, Kobak, 75 J. Pat. & Trademark Off. Soc'y at 554 (noting that *Mallinckrodt* "vitiates a distinction between sale and license which had grown to be well accepted"). It reads *General Talking Pictures* for the proposition that "conditions" imposed on *anyone* are enforceable through infringement suits, and distinguishes *Motion Picture Patents* and *Univis Lens* as antitrust cases holding only that particular conditions were anticompetitive. The Federal Circuit reached that result in *Mallinckrodt* by dismissing this Court's actual reasoning in those cases as "dicta." But "[w]hen the *Mallinckrodt* panel says that this is dictum, it is merely saying in a peculiar manner that it does not like the Supreme Court's reasoning and thinks that the Court should have held something else—that it should have reached its end result by a different conceptual route." Stern, 15 Eur. Intell. Prop. Rev. at 465. This Court explained clearly in *General Electric* that the exhaustion cases nullifying resale price restrictions, for example, *are not* antitrust decisions but instead "are only instances of the application of the principle of *Adams v. Burke* ... that a patentee may not attach to the article made by him, or with his consent, a condition running with the article in the hands of purchasers." 272 U.S. at 493-94; *see also* Kobak, 75 J. Pat. & Trademark Off. Soc'y at 555 (noting that the Federal Circuit "ignored completely the gloss given to the price restriction cases by the Supreme Court in *General Electric* and the clear distinction drawn by the Court between sales and licenses cases") (footnote omitted).

The distinction between sales and licenses has of course been blurred in recent decades by the ubiquity of "shrink wrap" or "click wrap" licenses imposing restrictions on the use of computer software. But such restrictions are permissible only because of the technical quirk that software purchasers also need a license to create new instances of the patented product whenever it is loaded into memory. The peculiarities of software should not be permitted to destroy

the license/sale distinction throughout the law.

Finally, the Federal Circuit's new jurisprudence of notice restrictions muddles together important distinctions between patent and contract law—leading Judge Gajarsa to warn of a "conceptual collapse." The license conditions in *General Talking Pictures*, and the sale conditions permitted by *A.B. Dick*, were enforced against purchasers under the property law principle that a purchaser cannot receive greater title than his seller intended to convey. Even after it rejected the enforcement of such conditions under patent/property law, this Court acknowledged that there was still a separate question about whether conditions might be enforced by state contract law. *See, e.g., Motion Picture Patents*, 243 U.S. at 509; *Keeler*, 157 U.S. at 666. The Federal Circuit has now attempted to revive the enforcement of such conditions by invoking contract principles—hence its contorted use of the U.C.C. here and in *Mallinckrodt*, and its occasional statement that exhaustion applies absent "a restriction having contractual significance," *Hewlett-Packard*, 123 F.3d at 1453, or an "express contractual undertaking by the purchaser," *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1108 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002). But contractual enforcement must proceed under actual contract law—including contract damages and rescission principles, privity limitations, and a genuine analysis of the state law of offer and acceptance rather than the Federal Circuit's absurd pretense that any letter mailed to a consumer becomes an enforceable contract under the U.C.C. "battle of the forms." *See supra* pp. 6, 20 and note 2. No genuine contract analysis could bear the weight the Federal Circuit has tried to put on it: reviving the *A.B. Dick* rule that purchasers violating a use-restricting "notice" may be sued *for patent infringement.*

The Federal Circuit tries to justify its holdings by arguing that "[p]atent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade," and invoking a

supposed "rule of contract law that sale may be conditioned." *Mallinckrodt*, 976 F.2d at 708. But ordinary contract law does not permit a manufacturer to stamp use-restricting "notices" on goods and enforce them against downstream purchasers. That would be a servitude or restraint on alienation running with chattels, and therefore necessarily a creature of *property* not contract law. Such restrictions have been disfavored by the law for centuries. In fact the Federal Circuit has given patent owners vastly greater rights to continue to restrict the subsequent use and disposition of sold goods than are enjoyed by sellers of ordinary goods, or even of other forms of intellectual property. *See, e.g.*, Kobak, 75 J. Pat. & Trademark Off. Soc'y at 562.

III. THIS CASE RAISES QUESTIONS OF NATIONAL IMPORTANCE

The Federal Circuit's decision in this case, and its broader patent exhaustion jurisprudence, raise issues of vital national importance that merit review by this Court.

On its own facts, this case involves an attempt by LGE to hold the entire international computer industry hostage for billions of dollars in royalties for incorporating Intel chips into their products—even though Intel has already paid LGE for an unrestricted license; even though Intel's products have no other reasonable use; and even though this Court has always held that "[p]atentees ... are entitled to but one royalty for a patented machine," and therefore "when a patentee has ... authorized another to construct and sell it ... and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold ...." *Bloomer v. Millinger*, 68 U.S. 340, 350 (1864). Other patentees are waiting eagerly to see if this maneuver is permissible. LGE itself could replicate it by negotiating a license settlement with petitioners and other manufacturers that requires them to send a similar "notice" to consumers, and then demanding a *third* round of royalties. The core purpose of the exhaustion rule has always been to prevent

such vexatious demands. In circumstances like these, it reduces transaction costs by forcing one negotiation, up front, with the first purchaser. As this Court explained in *Keeler*, enforcing exhaustion "does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. *The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*" 157 U.S. at 666-67 (emphasis added).

The Federal Circuit's remarkable new holding in this case that method claims can never be exhausted will also wreak havoc with commerce and the inventing community. Most patents include method claims; indeed, almost any device invention can also be described as a method of using that device, and most are. If method claims are now exempt from exhaustion, there will be an explosion of infringement suits seeking a second round of royalties from persons who (like petitioners) purchased goods and paid full price for them expecting that the patentee's claims were satisfied. Indeed, virtually all companies and consumers are likely infringing scores of patents under this reasoning.

More broadly, the Federal Circuit's decision threatens to usher in a new era of patent owners attaching "notices" to sold goods that purport to impose use restrictions that "run with" the sold articles. They will attempt to eliminate aftermarket competition by imposing "no resale" or resale price maintenance restrictions that follow the product throughout its lifetime. They will eliminate the purchaser's traditional right to repair the patented good (and nullify patent law's careful distinctions between permissible repair and impermissible reconstruction, *see, e.g.*, *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964)) with "no repair" or "single use only" restrictions, as in *Mallinckrodt*. They will try "field of use" restrictions facilitating territorial division or price discrimination schemes, enforced by the full weight of patent law.

There will be years and perhaps decades of litigation over whether particular "notices" are enforceable. The

Federal Circuit has said that "[t]he appropriate criterion is whether [the] restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Mallinckrodt*, 976 F.2d at 708. As applied by the Federal Circuit, that test is meaningless and circular. *No* restrictions on use or resale of the product after an authorized first sale are "within the patent grant" under well-settled traditional law. What the Federal Circuit likely means is that any condition that does not violate the antitrust laws will be permissible—but even that supplies no coherent limiting principle, because under antitrust law patentees are permitted to do things that others are not.

> If one takes the CAFC at its word and abolishes the distinction between a restriction in a license and a restriction in a sales transaction, and if one then applies to sales conditions the never overruled logic of *General Electric*, *General Talking Pictures* and other license restriction cases—that is, that any restriction likely to maximize the patentee's reward should be considered as inherent in the patent right—virtually *any* restriction, including in theory even a resale price restriction, would be immune from challenge under either antitrust or misuse principles.

Kobak, 75 J. Pat. & Trademark Off. Soc'y at 560-61 (footnotes omitted). At a minimum, there will be great confusion and litigation before these rules are settled.

Because Federal Circuit has cast the breach of any such notice or restrictive covenant as an issue of federal patent infringement, it will have exclusive jurisdiction over any appeals and therefore has guaranteed that its extraordinary and unprecedented jurisprudence will govern the enforcement of such conditions everywhere in the country. *See id.* at 560. Only this Court can straighten out this mess.

CONCLUSION

The petition for certiorari should be granted.

Respectfully submitted,

MAUREEN E. MAHONEY
Counsel of Record
J. SCOTT BALLENGER
ANNE W. ROBINSON
LATHAM & WATKINS LLP
555 11TH STREET N.W.
SUITE 1000
WASHINGTON, D.C. 20004
(202) 637-2200
Counsel for Petitioners

TERRENCE D. GARNETT
VINCENT K. YIP
PETER WIED
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
515 SOUTH FLOWER STREET
25TH FLOOR
LOS ANGELES, CA 90071
(213) 683-6000
Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

MAXWELL A. FOX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
34 F ARK MORI BUILDING
P.O. BOX 577
12-32 AKASAKA 1-CHOME
MINATO-KU, TOKYO 107-6034
JAPAN
813 6229 6100
Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

RONALD S. LEMIEUX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
5 PALO ALTO SQUARE
6TH FLOOR
PALO ALTO, CA 94306
Counsel for First International Computer, Inc. and First International Computer of America, Inc.

WILLIAM J. ANTHONY, JR.
ERIC L. WESENBERG
KAI TSENG
MATTHEW J. HULT
ROWENA Y. YOUNG
ORRICK, HERRINGTON
& SUTCLIFFE LLP
1000 MARSH ROAD
MENLO PARK, CA 94025
(650) 614-7400
Counsel for Compal Electronics, Inc., Bizcom Electronics, Inc., Sceptre Technologies, Inc.

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

LG ELECTRONICS, INC., Plaintiff-Appellant,

v.

BIZCOM ELECTRONICS, INC., Compal Electronics, Inc., and Sceptre Technologies, Inc., Defendants-Cross Appellants,

and

Everex Systems, Inc., Defendant-Appellee,

and

First International Computer Inc. and First International Computer of America, Inc., Defendants-Cross Appellants,

and

Q-Lity Computer, Inc., Quanta Computer, Inc., and Quanta Computer USA, Inc., Defendants-Cross Appellants.

Nos. 05-1261, 05-1262, 05-1263, 05-1264, 05-1302, 05-1303, 05-1304.

July 7, 2006.
Rehearing and Rehearing En Banc Denied Sept. 1, 2006.

Before MICHEL, Chief Judge, NEWMAN, and MAYER, Circuit Judges.

MAYER, Circuit Judge.

LG Electronics, Inc. ("LGE") appeals from the final judgment of the United States District Court for the Northern District of California, which granted summary judgment of noninfringement of U.S. Patent Nos. 4,918,645; 5,077,733; 4,939,641; 5,379,379; and 5,892,509 in favor of Bizcom Electronics, Inc.; Compal Electronics, Inc.; Sceptre

Technologies, Inc.; First International Computer, Inc.; First International Computer of America, Inc.; Q-Lity Computer, Inc.; Quanta Computer, Inc.; Quanta Computer USA, Inc.; and Everex Systems, Inc. (collectively "defendants"). *LG Elecs., Inc. v. Ausustek Computer, Inc.*, Nos. C-01-1375, -1552, -1594, -2187 (N.D.Cal. Jan. 31, 2005); *LG Elecs., Inc. v. Ausustek Computer, Inc.*, Nos. C-01-1375, -1594, -2187, -1552 (N.D.Cal. Nov. 30, 2004); *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F.Supp.2d 912 (N.D.Cal.2003); *LG Elecs., Inc. v. Ausustek Computer, Inc.*, Nos. C-01-326, -1375, -1594, -2187, -1552 (N.D.Cal. Aug. 20, 2002) ("*Intel I*"). LGE also appeals and defendants cross appeal various claim construction rulings by the trial court. *LG Elecs., Inc. v. Ausustek Computer, Inc.*, Nos. C-01-00326, -01375, -01594, -02187, -01552 (N.D.Cal. Aug. 20, 2002) ("*Claim Construction Order*"). Defendants First International Computer, Inc.; First International Computer of America, Inc.; Q-Lity Computer, Inc.; Quanta Computer, Inc.; and Quanta Computer USA, Inc. also cross appeal the denial of summary judgment based on their implied license defense. *LG Elecs., Inc.*, 248 F.Supp.2d 912.

Background

LGE is the owner of patents relating to personal computers, including U.S. Patents Nos. 4,918,645 (disclosing systems and methods that increase the bandwidth efficiency of a computer's system bus); 5,077,733 (claiming, in relevant part, a method that controls the access of a device to a bus shared by multiple devices); 4,939,641 (claiming, in relevant part, a system for ensuring that outdated data is not retrieved from memory); 5,379,379 (claiming a system and method for ensuring that outdated data is not retrieved from memory); and 5,892,509 (claiming networked computers capable of sharing certain video images). LGE sued defendants alleging infringement of these patents.

Defendants purchase microprocessors and chipsets from Intel or its authorized distributors and install them in computers. Intel is authorized to sell these products to

defendants under an agreement with LGE. However, pursuant to this agreement, Intel notified defendants that, although it was licensed to sell the products to them, they were not authorized under that agreement to combine the products with non-Intel products. LGE brought suit against defendants, asserting that the *combination* of microprocessors or chipsets with other computer components infringes LGE's patents covering those combinations. LGE did not assert patent rights in the microprocessors or chipsets themselves.

After construing the patent claims, the trial court granted summary judgment of noninfringement of each patent. It determined that there was no implied license to any defendant, but that, with the exception of the '509 patent, LGE's rights in any system claims were exhausted. The court also found that LGE was contractually barred from asserting infringement of the '509 patent against defendants. It found the '645, '733, and '379 patents not infringed after applying its claim construction to the accused methods and devices. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

Discussion

"We review the trial court's grant of summary judgment without deference, reapplying the same standard as the trial court." *Lacavera v. Dudas*, 441 F.3d 1380 (Fed.Cir.2006) (citing *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1281 (Fed.Cir.2005)). Summary judgment is appropriate "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). We review claim construction *de novo*. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456 (Fed.Cir.1998) (en banc).

I. Implied License[1]

"In a suit for patent infringement, the burden of proving the establishment of an implied license falls upon the defendant." *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed.Cir.1984) (citing *Bassick Mfg. Co. v. Adams Grease Gun Corp.*, 54 F.2d 285, 286 (2d Cir.1931)). To prevail, defendants were required to establish that the products have no noninfringing uses and that "the circumstances of the sale ... 'plainly indicate that the grant of a license should be inferred.' " *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 686 (Fed.Cir.1986) (quoting *Bandag, Inc.*, 750 F.2d at 925). The trial court found, and we agree, that Intel's sales of its licensed products to defendants do not warrant the inference of a license with respect to the asserted patents. Regardless of any noninfringing uses, Intel expressly informed them that Intel's license agreement with LGE did not extend to any of defendants' products made by combining an Intel product with non-Intel products. In light of this express disclaimer, no license can be implied.

II. Patent Exhaustion

The patents asserted by LGE do not cover the products licensed to or sold by Intel; they cover those products when combined with additional components. The trial court, nevertheless, found that the system claims in all patents except the '509 patent were exhausted, but that the exhaustion doctrine did not apply to the method claims. We reverse the trial court's holding with respect to the system claims and affirm with respect to the method claims.

It is axiomatic that the patent exhaustion doctrine, commonly referred to as the first sale doctrine, is triggered

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[1] First International Computer, Inc.; First International Computer of America, Inc.; Q-Lity Computer, Inc.; Quanta Computer, Inc.; and Quanta Computer USA, Inc. are the defendants challenging the trial court's implied license ruling.

by an unconditional sale. *See Mitchell v. Hawley*, 16 Wall. 544, 83 U.S. 544, 547, 21 L.Ed. 322 (1873). "[A]n *unconditional* sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee." *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed.Cir.1997) (discussing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed.Cir.1992)) (emphasis added and citations omitted).

There are two sales at issue here. First, prior to this litigation, LGE granted Intel a license covering its entire portfolio of patents on computer systems and components. This transaction constitutes a sale for exhaustion purposes. *See United States v. Masonite Corp.*, 316 U.S. 265, 278, 62 S.Ct. 1070, 86 L.Ed. 1461 (1942). Second, with LGE's authorization, Intel sold its microprocessors and chipsets to each defendant. Notably, this sale involved a component of the asserted patented invention, not the entire patented system.

The trial court issued two orders on patent exhaustion. The first is unclear about which sale the court relied upon in holding LGE's system patent rights exhausted with respect to defendants, but we understand it to be LGE's license to Intel. *Intel I* at 9-10. However, the second order, which reaffirmed the first, clearly relied on Intel's sale of its microprocessors and chipsets to defendants as the exhausting sale. *LG Elecs., Inc.*, 248 F.Supp.2d at 917. In finding the unconditional sale requirement satisfied, the court concluded that although "LGE is entitled to impose conditions on the sale of the essential components of its patented products does not mean that it actually did so here.

To the contrary, defendants' purchase of the microprocessors and chipsets from Intel was unconditional, in that defendants' purchase of the microprocessors and chipsets from Intel was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resultant products." *Id.* at 916-17. We disagree.

The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did. Although Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel's customers were expressly prohibited from infringing LGE's combination patents. *Cf.* N.Y. U.C.C. Law § 2-202 (allowing contracts to be supplemented by consistent additional terms unless the writing is intended to be complete and exclusive). The "exhaustion doctrine ... does not apply to an expressly conditional sale or license," *B. Braun Med. Inc.*, 124 F.3d at 1426, so LGE's rights in asserting infringement of its system claims were not exhausted.

Conversely, the trial court declined to find LGE's asserted method claims exhausted. Several defendants contest this ruling on cross-appeal, and we reject their challenge. Based on the above reasoning, even if the exhaustion doctrine were applicable to method claims, it would not apply here because there was no unconditional sale. However, the sale of a device does not exhaust a patentee's rights in its method claims. *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n. 1 (Fed.Cir.1999) (citing *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed.Cir. 1984)). The court was correct.

III. '509 Patent

The '509 patent discloses a system of networked computers capable of sharing video images. The trial court's exhaustion ruling did not extend to the '509 patent; instead

it granted summary judgment of noninfringement on the ground that LGE was contractually barred from asserting infringement of the '509 patent claims against defendants. This conclusion was based on a non-assertion provision in a contract between LGE and Microsoft, which barred LGE from suing "[Microsoft], its suppliers, their subsidiaries, or their licensees."[2] The court concluded that defendants were included within this class of parties. Because a genuine issue of material fact exists as to whether defendants fall within the protection of this contract provision, we reverse the trial court's grant of summary judgment of noninfringement.

In determining whether LGE is barred under the LGE-Microsoft agreement from suing defendants for infringement, the dispositive issue is whether each defendant is a Microsoft licensee. Defendants are third-party installers ("TPIs") that assemble computers for original equipment manufacturers ("OEMs"). The OEMs have licenses with Microsoft, and it is undisputed that defendants were authorized to install Microsoft's products on the systems they manufacture. It is unclear, however, whether defendants' authorization was under "have made" rights of the OEMs' agreements with Microsoft, whereby the OEM would be authorized to use a third party for completing work on its behalf, or whether such authorization was as a sublicensee. If the work was authorized solely by an OEM's have made rights, and if that OEM were not authorized to grant sublicenses under its

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[2] The relevant contract provision provides:

> [As partial consideration for the rights granted to [LGE] under the License Agreement(s), [LGE] agrees not to (A) sue, or (B) bring, prosecute, assist or participate in any judicial, administrative or other proceedings of any kind against [Microsoft], its Suppliers, their subsidiaries, or their licensees (including without limitation [original equipment manufacturer] customers and end users) for infringement of [LGE's] Patents ... which occurs during the Immunity period ... on account of the manufacture, use, sale, or distribution of ... [the product's licensed to LGE by Microsoft].]

agreement with Microsoft, then defendants may not be "licensees" protected by the LGE-Microsoft non-assertion provision. *Cf. Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381, 1388 (Fed.Cir.1996) (distinguishing "have made rights" from sublicenses). A genuine issue of material fact exists as to each defendant's status.

On remand, defendants must establish that LGE is contractually barred from pursuing infringement claims against them. *See McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 920 (Fed.Cir.1995). Although the parties have relied on the LGE-Microsoft agreement in arguing whether or not defendants are Microsoft licensees, that agreement is not the proper focus. It is the agreements between each OEM and each defendant, and those between Microsoft and the OEM hiring each defendant that matter.

The record indicates that FIC was both a TPI and an OEM. As an OEM, it had a license from Microsoft, and therefore falls squarely within the scope of protected parties under the non-assertion provision. However, the contract provision only bars suit against Microsoft licensees for infringement "on account of" the manufacture, use, sale, or distribution of Microsoft's products. LGE does not dispute that there is no infringement absent the Microsoft software in the accused devices, since the software satisfies some, but not all, limitations of the '509 patent claims. However, LGE argues that any infringement was not "on account of" the use of Microsoft products. The trial court rejected this argument, essentially reading the "on account of language" as a "but for" requirement.

The "on account of" language, however, is not susceptible of only one interpretation. According to the Supreme Court in construing this phrase in an unrelated statute, "the phrase 'on account of' does not unambiguously define itself." *O'Gilvie v. United States*, 519 U.S. 79, 82, 117 S.Ct. 452, 136 L.Ed.2d 454 (1996) (construing 26 U.S.C. § 7405(b)). Here, too, the degree of causation required by this contract term is unclear. Because proper construction

requires factual considerations, we reverse the trial court's grant of summary judgment. *Scott Galvanizing, Inc. v. Nw. EnviroServices, Inc.*, 120 Wash.2d 573, 844 P.2d 428, 433 (1993); *see also BNC Mortgage, Inc. v. Tax Pros, Inc.*, 111 Wash.App. 238, 46 P.3d 812, 819-820 (2002) ("If the contract's written words have two or more reasonable meanings (i.e., are 'ambiguous') when read in context, a court may not grant summary judgment or direct a verdict; instead, it must put the case to a trier of fact.") (citations omitted).

The parties also dispute the trial court's construction of several claim terms in the '509 patent. Claim 35, from which asserted claims 45 and 51 depend, contains the limitation of "a control unit for controlling the communication unit, wherein the control unit comprises a [central processing unit ('CPU')] and a partitioned memory system." LGE contends that the trial court erroneously construed the term "control unit" as a means-plus-function limitation.

" '[A] claim term that does not use 'means' will trigger the rebuttable presumption that § 112 ¶6 does not apply.' " *Lighting World, Inc. v. Birchwood Lighting, Inc.*, 382 F.3d 1354, 1358 (Fed.Cir.2004) (quoting *CCS Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1369 (Fed.Cir.2002)). This presumption can be rebutted "by showing that the claim element recite[s] a function without reciting sufficient structure for performing that function." *Watts v. XL Sys.*, 232 F.3d 877, 880 (Fed.Cir.2000) (citing *Rodine PLC v. Seagate Tech., Inc.*, 174 F.3d 1294, 1302 (Fed.Cir.1999)). However, the presumption "is a strong one that is not readily overcome." *Lighting World, Inc.*, 382 F.3d at 1358.

Here, the claim limitation at issue does not use the term "means," and the presumption against means-plus-function treatment is not overcome. The claim itself provides sufficient structure, namely "a CPU and a partitioned memory system," for performing the stated function, "controlling the communication unit." *See id.* at 1359-60. Thus, the proper construction of "control unit" is "a

combination comprising a CPU and a partitioned memory system capable of controlling the communication unit."

Defendants contend on cross appeal that the trial court also misconstrued claim 35 by not requiring multiple displays. In particular, they contend that the preamble term "image processing system" requires multiple displays in light of the prosecution history. However, the claim language does not include this limitation, and the trial court properly refused to read it into the claim. Moreover, the body of the claim provides for "a display." *KCJ Corp. v. Kinetic Concepts, Inc.*, 223 F.3d 1351, 1356 (Fed.Cir.2000) ("This court has repeatedly emphasized that an indefinite article 'a' or 'an' in patent parlance carries the meaning of 'one or more' in open-ended claims containing the transitional phrase 'comprising.' ") (citations omitted). Claim differentiation also supports the trial court's construction because dependent claim 38 adds the limitation of the "image processing system further compris[ing] at least first and second displays coupled to the CPU of the image processing system." *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed.Cir.2005) ("Differences among claims can also be a useful guide in understanding the meaning of particular claim terms." (citing *Laitram Corp. v. Rexnord, Inc.*, 939 F.2d 1533, 1538 (Fed.Cir.1991))).

The prosecution history relied upon by defendants does not compel a different construction. The patentee made arguments during prosecution to distinguish claims in the parent application to the '509 patent, which expressly required multiple displays, over the prior art. These arguments, however, do not compel reading a multiple display limitation into the '509 patent, which does not expressly require multiple displays. *See Elkay Mfg. Co. v. Ebco Mfg. Co.*, 192 F.3d 973, 980 (Fed.Cir.1999) ("When multiple patents derive from the same initial application, the prosecution history regarding a claim limitation in any patent that has issued applies with equal force to

subsequently issued patents *that contain the same claim limitation.*" (emphasis added)).

IV. '645 patent

The '645 patent discloses a digital computer system that has devices called agents that are interconnected by a system bus. The claimed system and corresponding method require one agent, the requesting agent, to request access to a memory stored on another agent, called the replying agent. The requested data is organized as a matrix of memory cells, having column and row coordinates. The "memory controller" of the replying agent processes the request from the requesting agent by asserting a plurality of memory address control signals, including at least one row address strobe ("RAS") signal and one column address strobe ("CAS") signal. This "page mode memory access" operates by the assertion of an entire row of data followed by the assertion and deassertion of multiple column addresses. By the RAS signal accessing an entire row followed by the assertion and deassertion of particular column addresses, this page mode memory access differs from the conventional memory access, which separately accessed each memory cell by asserting its individual row address and column address. In the claimed invention, after the data is accessed, it is then transferred to the requesting agent over the system bus.

LGE alleged infringement of system claims 1-4 and 6 and method claims 12-15 and 17. The trial court granted summary judgment of noninfringement of all asserted claims, concluding that the RAS/CAS signals in defendants' devices did not travel over the system bus. However, the '645 patent claims do not contain a limitation requiring that the strobe signals travel over the system bus. Moreover, the specification does not suggest that the strobe signals must travel over the system bus. To the contrary, Figure 5 shows an embodiment of the invention in which the strobe signals travel only internally within the replying agent, not across the system bus.

In an attempt to impose this limitation on the claims, defendants rely on the prosecution history. While the prosecution history is relevant to claim construction, "it often lacks the clarity of the specification and thus is less useful for claim construction purposes." *Phillips*, 415 F.3d at 1317 (citations omitted). Here, defendants point to statements in the prosecution history that the prior art does not teach "a page mode type of access over a system bus from a requesting agent to a replying agent." While we agree that this and other statements in the prosecution history lack ideal clarity, we do not find that they rise to the level of disclaiming or limiting the scope of the express claim language. Therefore, the trial court erred in construing the '645 claims to require the RAS and CAS signals to travel over the system bus. In addition, there is a genuine issue of material fact as to whether the accused devices and methods utilize strobe signals. LGE's expert submitted an affidavit that the accused devices employ strobe signals, which precludes summary judgment.

In the alternative, defendants contend that LGE failed to present evidence of an "end of access signal." This signal, which is required by the claims, is generated by the requesting agent and received by a detecting means coupled to the memory address control signal asserting means. When the detection means receives this end of access signal, the operation is halted. Defendants contend that LGE failed to establish the existence of a genuine issue of material fact as to whether the accused devices contain this limitation. However, the trial court did not consider this argument, and we will not address this factual issue in the first instance.

LGE also argues that the trial court's construction of the "requesting agent" claim limitation was in error. The court construed this term as "a device coupled to the system bus that requests access to a memory located on a replying agent." *Claim Construction Order* at 6-9. LGE contends that an industry standard, which was incorporated into the specification by reference, provides the proper claim

construction of this term. '645 patent col. 3 ll. 51-56.[3] The incorporated standard explicitly defines the term "requesting agent" as "an agent that has entered into the arbitration function for bus access." Defendants contend, however, that the patentee did not act as its own lexicographer by incorporating this industry standard by reference. The trial court did not accept LGE's proposed construction, concluding that it was a preferred embodiment and did not limit the claimed invention. The difference in the two constructions is temporal: LGE's proposed construction defines an agent as a requesting agent only when it is engaged in arbitration for bus access, whereas the trial court's construction defines a requesting agent regardless of whether it is actively engaged in arbitration.

We have recognized that the "[i]nterpretation of descriptive statements in a patent's written description is a difficult task, as an inherent tension exists as to whether a statement is a clear lexicographic definition or a description of a preferred embodiment." *E-Pass Techs., Inc. v. 3Com Corp.*, 343 F.3d 1364, 1369 (Fed.Cir.2003). "Thus in determining whether a statement by a patentee was intended to be lexicographic, it is important to determine whether the statement was designed to define the claim term or to describe a preferred embodiment." *Id.* We agree with the trial court and defendants that the patentee did not act as its own lexicographer here. Instead, the industry

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[3] The specification provides:

> Although the method and apparatus of the invention will be described herein in the context of a Multibus II environment, it should be appreciated that the invention may be practiced in many digital computer systems having a bus for transferring data between at least two agents interconnected upon the bus.
>
> The operating characteristics of the Multibus II are described in a document entitled "High Performance 32-Bit Bus Standard P1296" which was produced by the IEEE microprocessor standards committee P1296 working group, Jun. 20, 1986, draft 2.0, the disclosure of which is incorporated herein in its entirety.

'645 patent col. 3 ll. 45-56.

standard was incorporated as a preferred embodiment. The specification makes this clear by explaining that "[a]lthough the method and apparatus of the invention will be described herein in the context of a Multibus II environment, it should be appreciated that the invention may be practiced in many digital computer systems having a bus for transferring data between at least two agents interconnected upon the bus." '645 patent col. 3 ll. 45-49.

Chimie v. PPG Industries, Inc., 402 F.3d 1371 (Fed.Cir.2005), does not compel a different result. In *Chimie*, we were confronted with the claim terms "dust-free and non-dusting." After concluding that these terms were relative and could only be understood by comparison with the prior art, we concluded that only one standard was disclosed in the specification for making such a comparison. We limited these claim terms to the disclosed standard. Here, however, there is no relative term that cannot be understood without reference to an industry standard.

But, this does not end our inquiry. The proper claim construction is "the ordinary and customary meaning ... that the term would have to a person of ordinary skill in the art in question at the time of the invention, i.e., as of the effective filing date of the patent application." *Phillips*, 415 F.3d at 1313 (citations omitted). "When prior art that sheds light on the meaning of a term is cited by the patentee, it can have particular value as a guide to the proper construction of the term, because it may indicate not only the meaning of the term to persons skilled in the art, but also that the patentee intended to adopt that meaning." *Arthur A. Collins, Inc. v. N. Telecom Ltd.*, 216 F.3d 1042, 1045 (Fed.Cir.2000). Although we have concluded that the patentee did not expressly adopt the definition of "requesting agent" in the incorporated industry standard, that standard remains relevant in determining the meaning of the claim term to one of ordinary skill in the art at the time the patent application was filed, and it is treated as intrinsic evidence for claim construction purposes, *see V-*

Formation, Inc. v. Benetton Group SpA, 401 F.3d 1307, 1311 (Fed.Cir.2005) ("This court has established that 'prior art cited in a patent or cited in the prosecution history of the patent constitutes intrinsic evidence.' ") (citations omitted).

Here, the trial court erred by failing to give proper weight to the incorporated industry standard; it failed to consider the standard as intrinsic evidence of the meaning to one of ordinary skill in the art as of the filing date. After considering the standard, in addition to the patent claims and specification, we conclude that LGE's proffered definition based on the standard is correct. Thus, we construe "requesting agent" as "an agent that has entered into the arbitration function for bus access." This construction is entirely consistent with the specification, which provides that "at one time in the operation of the system ... the requesting agent 12 may be a replying agent, and that the replying agent 16 may at that time be a requesting agent." '645 patent col.4 ll. 8-11. This language makes clear that the classification of an agent depends upon the function the agent is performing at any given time, i.e., whether it is engaged in arbitration at a given moment.

V. '733 patent

The '733 patent discloses a rotating priority system that provides multiple computer devices alternating access to a system bus, which is the pathway over which the various components of a computer system transmit data. This system addresses the problem of "hogging," in which one component of a computer system monopolizes access to the system bus. The asserted claims of the '733 patent, method claims 15-19,[4] establish a rotating priority system that limits

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[4] Claim 15, the only independent claim at issue, provides:

A method for determining priority of access to a bus among a set of devices coupled to the bus, each device being represented for priority purposes by a node in a group of nodes and each node having a priority relative to a single node currently having the highest priority, the method comprising the steps of:

each device's access to the bus. In particular, claim 15 sets forth two steps of the method as "counting a number of accesses by the device to the bus" and then "in response to a predetermined number of accesses to the bus, giving another [device] the highest priority." The trial court granted summary judgment of noninfringement of the '733 patent, holding that the claim limitation of "counting a number of accesses by the device to the bus" was not practiced in the accused method.

The court construed the claim limitation "counting a number of accesses" as "counting the number of times a device gains use of the bus." *Claim Construction Order* at 38-41. The parties do not directly challenge this construction, but LGE argues that a genuine issue of material fact exists as to whether the accused method performed this step. LGE argues that the master latency timer ("MLT") in defendants' accused devices performs this step. MLTs count clock signals when an anchor node has possession of the bus. Defendants contend that although an MLT limits the time duration of bus access by a device, it does not count the number of accesses by the device. Defendants also contend that, in some instances, the MLTs continue counting when clock signals pass even if no access to the bus is taking place, such as during WAIT periods when no data is being placed on the bus.

LGE responds that the bus is accessed even during WAIT periods, regardless of whether any data is placed on the bus, because the device has access to the bus. LGE

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receiving an access request in a node from a represented device;

determining whether any node with a higher priority has received an access request;

if no such node has received an access request, permitting the device to access the bus;

counting a number of accesses by the device to the bus; and

in response to predetermined number of accesses to the bus, giving another node the highest priority.

points out that the purpose of the invention is to eliminate "hogging" the bus, and that the bus is "being hogged" even during WAIT periods. Further, LGE argues that, under the trial court's construction, a device still has "use of the bus" during a wait period. LGE points to the discussion in the '733 patent relating to Figure 8. '733 patent col. 21. In this preferred embodiment, the description includes a programmable node grant counter NGCNT 720. The description explains that when certain conditions are met, an enable count input is asserted and during a bus access cycle a transition of a clock signal causes NGCNT 720(1) to increment by one count. Therefore, when certain criteria are met, a clock signal can create an access count.

There is a genuine issue of material fact as to whether the accused devices count the number of accesses. *See Ranbaxy Pharms., Inc. v. Apotex, Inc.*, 350 F.3d 1235, 1240 (Fed.Cir.2003) ("Infringement, both literal and under the doctrine of equivalents, is a question of fact." (citing *Insituform Techs., Inc. v. Cat Contracting, Inc.*, 161 F.3d 688, 692 (Fed.Cir.1998))). The central issue is whether the bus is accessed on each clock signal so that the clock signals, in effect, count the number of accesses to the bus. The trial court agreed that LGE's argument is consistent with its claim construction, but found that it failed to present evidence supporting its position. To the contrary LGE presented sufficient expert testimony on this issue to avoid summary judgment. LGE's expert testified that some type of signal is asserted with each clock signal, and, if proven, this would in effect make the MLTs count accesses. The summary judgment is vacated.

VI. '641 patent

The '641 patent discusses a system for ensuring that the most current data is retrieved from the main memory. Because individual devices can update data in their own local cache memory without immediately writing the new data back to the main memory, data in the main memory can be "stale." Therefore, the system claimed in the '641 patent

monitors the data being transferred over the bus, and if data stored in the cache matches the address of the data being transferred, a hold signal is asserted. Then, the data being transferred is compared with the data on the cache. If there is a difference, the data stored on the cache, which is the most recent data, is also transferred.

The trial court concluded the '641 patent claims asserted were not infringed based on its patent exhaustion holding, which we reverse above. However, LGE contends that the trial court also improperly construed claims 1, 5, and 14. In particular, LGE disputes the trial court's construction of "cache memory means" (in claims 1 and 5) and "cache memory" (in claim 14), which were construed as "one of at least two high speed memories located close to the CPU of a computer to give the CPU faster access to blocks of data than could be taken directly from the larger, slower main memory and never using valid/invalid bits." *Claim Construction Order* at 18-22. LGE contends that the trial court improperly read claims 1 and 14 as requiring at least two caches. It also contends that the trial court improperly read in the limitation that neither cache uses valid/invalid bits.

We agree with LGE that the trial court erred in reading the limitation of at least two high speed memories into claims 1 and 14. Unlike claim 5, which expressly requires at least two cache memory means, claims 1 and 14 have no such express limitation. *Cf. Phillips*, 415 F.3d at 1314 ("Differences among claims can also be a useful guide in understanding the meaning of particular claim terms." (citing *Laitram Corp. v. Rexnord, Inc.*, 939 F.2d 1533, 1538 (Fed.Cir.1991))). To the contrary, claims 1 and 14 only require one or more CPUs and a cache memory coupled between the CPU and the bus. Because the claims expressly cover one central processing unit, they logically also cover systems with only one cache coupled between that single central processing unit and the bus. Defendants rely on the fact that the written description describes a

system with multiple caches. However, as we explain in more detail below, the patent application initially described two inventions, and these statements relate to the other invention that is not claimed in the '641 patent.

We also agree with LGE that the trial court improperly read the limitation of never using valid/invalid bits into the claims. The patent's background section suggests that valid/invalid bits were used to manage data in systems with more than one cache. In particular, it explains that the purpose of the invalid bit is to redirect a processor attempting to access an address in its cache to another cache with a more updated memory associated with that address. '641 patent col. 1 ll. 44-52. The claims at issue do not themselves expressly include or exclude the use of valid/invalid bits. Defendants, however, contend that the trial court's construction is supported by the specification and prosecution history. The specification states that "a further object of this invention [is] to provide a cache memory system wherein the use of valid/invalid data indicators are avoided." '641 patent col. 1 ll. 65-67. It further states that "[i]t should be kept in mind during the following description, that the invention maintains data integrity by assuring that cache data is always the most up-to-date in the system. Thus, there never is a 'valid' or 'invalid' indication with respect to any cache data as it is always assured that if data is provided by a cache, that it invariably is valid (i.e. most up-to-date)." *Id.* col. 3 ll. 27-33.

Defendants are correct that reviewing the specification in construing claims is appropriate, *Phillips*, 415 F.3d at 1315-17, but such review need not be done in the abstract. Here, as noted above, the original patent application disclosed two inventions. As the examiner observed, one invention was "drawn to a cache system for updating each copy of the data stored in a plurality of caches when the data is modified," and the other was drawn to "a cache system for sending the most current data to a requestor by monitoring the address of a data on a data bus for detecting whether

the [data] is stored and modified in the cache." The patent examiner concluded that these two inventions were distinct and required the applicant to elect one invention. The applicant ultimately limited the original application to the latter group of claims, which issued as the '641 patent, and the other claim group was separated into a different application, which ultimately issued as U.S. Patent No. 5,097,409.

Here, the discussion of valid/invalid bits in the specification was relevant to multi-cache systems, because the patent's background provides that "[s]o long as a write back cache is utilized with only one processor, data management is straight forward. However, when more than one central processor uses the same main memory, data management problems multiply." '641 patent col. 1 ll. 39-43. The patent explains that the data management problems in multiple CPU systems are a result, at least in part, of their containing more than one cache memory. Managing data in multiple cache systems was the subject of the invention not elected during prosecution and, therefore, the statements in the specification referring to valid/invalid bits are not relevant to the invention ultimately claimed in the '641 patent. *Cf. Pitney Bowes, Inc. v. Hewlett-Packard Co.*, 182 F.3d 1298, 1311 (Fed.Cir.1999) (observing that a written description describing multiple inventions may not be relevant "in toto" to each of those inventions). Indeed, the unelected claims expressly contained the limitation that the "cache memory means hav[e] no provisions for indicating the invalidity of said data units," whereas the elected claims contained no such limitation.

For the same reasons, we do not find that the patentee disavowed the use of valid/invalid bits under the doctrine of specification disclaimer. "[T]he specification may reveal an intentional disclaimer, or disavowal, of claim scope by an inventor. In that instance, ... the inventor has dictated the correct claim scope, and the inventor's intention, as expressed in the specification, is regarded as dispositive."

Phillips, at 1316; *see also SciMed Life Sys. v. Advanced Cardiovascular Sys.*, 242 F.3d 1337, 1341 (Fed.Cir.2001). However, because the statements relied upon by defendants relate to the invention not elected during prosecution, there is no clear disavowal with respect to the invention actually claimed in the '641 patent.

VII. '379 patent

Like the '641 patent, the '379 patent claims a system and method for ensuring that the most current data, as opposed to "stale" data, is retrieved from memory. The claimed invention relates to how a memory controller coordinates requests to read data from the memory and requests to write data to the memory. Generally, when a read request is asserted that corresponds to a buffered write request, the write request must go first to ensure that what is read from memory is the most current data. The invention disclosed in the '379 patent does this by comparing the address of each read request to the buffered write requests, noting any matches, halting read execution when there is a match, and executing the buffered write requests.

LGE contends that the trial court erred in construing system claims 1 and 23 as requiring all write requests to be executed after a match is detected, as opposed to executing any number of write requests until the write request corresponding to the matching read request is executed. We agree. The claim language does not require all write requests to be executed after a match is detected. Moreover, claim 2, which depends from claim 1, expressly requires the execution of all write requests, as does independent method claim 7. *See Phillips*, 415 F.3d at 1314 (recognizing the utility of claim differentiation). In addition, the claim limitation at issue is written in means-plus function-claim language ("means for ... causing an execution of buffered write requests"). Because the recited function is clear on its face, it was improper to incorporate the additional functional limitation of executing "all" buffered write requests. *Smiths Indus. Med. Sys., Inc. v. Vital*

Signs, Inc., 183 F.3d 1347, 1357 (Fed.Cir.1999); *see also Wenger Mfg., Inc. v. Coating Mach. Sys., Inc.*, 239 F.3d 1225, 1233 (Fed.Cir.2001) ("[A] court may not import functional limitations that are not recited in the claim ....").

LGE also disputes the trial court's grant of summary judgment of noninfringment of method claim 7.[5] This claim explicitly requires the step of buffering "each" read request and then comparing that read request to the buffered write

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[5] Claim 7 provides:

In an information processing system having a system bus for coupling together a plurality of bus connections, one of the bus connections being a memory control unit coupled to one or more memory units, the memory control unit being responsive to address and data signal lines of the system bus for writing information units to and for reading information units from the memory units, a method of reading and writing the information units comprising the steps of:

buffering write requests, including write addresses, as they are received from the system bus;

buffering read requests, including read addresses, as they are received from the system bus; comparing when received each read address against buffered write addresses, if any, to determine if a received read address has an address value within a predetermined range of address values of a buffered write address;

if a received address is determined not to be within the predetermined range of addresses of any buffered write addresses then:

first executing in sequence all buffered read requests; and then executing in sequence all buffered write requests;

else if a received address is determined to have an address value within the predetermined range of address values of any buffered write address;

first executing in sequence all buffered read requests up to but not including the received read request which was determined to be within the predetermined range;

then executing all buffered write requests; and then executing the buffered read request which

was determined to be within the predetermined range.

addresses. If the read request matches a write request, then the claim provides for the following steps: executing all buffered read requests up to the matching request; then executing "all buffered write requests;" and then executing the matching read request. If, however, the comparison of the read request does not yield a match to a buffered write request, then all read requests are executed. Defendants contend, and LGE does not appear to dispute, that the accused devices do not operate in this manner. Instead, they contend that when a buffered read request matches a buffered write request, their devices do not execute "all" write requests before executing the matching read request, but instead only execute the write requests up to the one matching the read request, and then execute the matching read request.

The trial court concluded, and we agree, that there was no literal infringement of this claim. The claimed method requires handling each read address in one of two ways depending on whether the read request matches a write request. The second way, which applies when the pending read request matches a pending write request, is to execute all write requests before executing the read request. LGE contends that when the matching write request happens to be the last in the buffer, all write requests are in fact executed before the matching read request. Although LGE correctly asserts that any practice of the claimed method would be infringement, *Bell Commc'ns Research, Inc. v. Vitalink Commc'ns Corp.*, 55 F.3d 615, 622 (Fed.Cir.1995), the claim must be considered in its entirety. Here, the claim requires *each* read request to be compared with the buffered write requests, and then one of two alternatives be followed. Because the claim was drafted with this limitation, the fact that the accused device occasionally operates in such a manner does not amount to literal infringement of claim 7. For infringement to be found, the claim requires the accused device to operate in this manner in response to "each" read request.

The trial court also found, as a matter of law, that there was no infringement under the doctrine of equivalents. In doing so, it rejected LGE's argument that performing all of the write requests up to (and including) the one matching the read request is an insubstantial difference from the claim limitation of performing all write requests before executing the incoming read request. The trial court reasoned that LGE's equivalence theory would vitiate the claim limitation of performing "all" write requests before an incoming read request matching a write request.

The doctrine of equivalents operates under the "all limitations rule," whereby "equivalence [is] assessed on a limitation-by-limitation basis, as opposed to from the perspective of the invention as a whole." *Freedman Seating Co. v. Am. Seating Co.*, 420 F.3d 1350, 1358 (Fed.Cir.2005) (citing *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 29, 117 S.Ct. 1040, 137 L.Ed.2d 146 (1997)). This doctrine, by its very nature, extends beyond the patent's literal claim scope, because otherwise a finding of no literal infringement would be a foreordained conclusion of no infringement at all. *Ethicon Endo-Surgery v. U.S. Surgical Corp.*, 149 F.3d 1309, 1317 (Fed.Cir.1998). At the same time, however, "[i]f our case law on the doctrine of equivalents makes anything clear, it is that all claim limitations are not entitled to an equal scope of equivalents." *Moore U.S.A., Inc. v. Standard Register Co.*, 229 F.3d 1091, 1106 (Fed.Cir.2000).

"There is no set formula for determining whether a finding of equivalence would vitiate a claim limitation, and thereby violate the all limitations rule. Rather, courts must consider the totality of the circumstances of each case and determine whether the alleged equivalent can be fairly characterized as an insubstantial change from the claimed subject matter without rendering the pertinent limitation meaningless." *Freedman Seating Co.*, 420 F.3d at 1359 (citations omitted). LGE contends that performing some of the write requests is a permissible equivalent to performing

all write requests, and that while performing no write requests may vitiate the claim language, performing some does not. As discussed above, there is inevitably a range of equivalents for performing all write requests, even if that range is narrow. *See Ethicon Endo-Surgery*, 149 F.3d at 1317. If substantially all or nearly all write requests are performed by the accused devices before each matching read request, then the doctrine of equivalents would be fully applicable without vitiating the claim language. Although such scope would be outside of the claim's literal scope, which is true in any doctrine of equivalents analysis, it would not be inconsistent with the language of the claim. Therefore, a genuine issue of material fact exists as to whether the accused device can function within the narrow range of equivalents that we have described above, and we vacate the trial court's grant of summary judgment of noninfringement on this ground.

Conclusion

Accordingly, the judgment of the United States District Court for the Northern District of California is affirmed in-part, reversed in-part, and vacated in-part. The case is remanded for further proceedings in accordance with this opinion.

COSTS

LGE shall have its costs.

AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, AND REMANDED

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

LG ELECTRONICS, INC.,
Plaintiff and Counterclaim Defendant,

v.

ASUSTEK COMPUTER, INC., and USUS COMPUTER INTERNATIONAL, INC., BIZCOM ELECTRONICS, INC., COMPAL ELECTRONICS, INC., and SCEPTRE TECHNOLOGIES, INC., FIRST INTERNATIONAL COMPUTER OF AMERICA, INC., and FIRST INTERNATIONAL COMPUTER OF AMERICA, INC., Q-LITY COMPUTER, INC., QUANTA COMPUTER, INC., and QUANTA COMPUTER USA, INC., EVEREX SYSTEMS, INC.,
Defendants and Counter claimants.

No. C 01-00326 CW, No. C 01-01375 CW, No. C 01-01594 CW, No. C 01-02187 CW, No. C 01-01552 CW

2002 U.S. Dist. LEXIS 25956; 65 U.S.P.Q.2D (BNA) 1589

August 20, 2002, Decided
August 20, 2002, Filed

JUDGES: CLAUDIA WILKEN, United States District Judge.

OPINION BY: CLAUDIA WILKEN

ORDER ON CROSS MOTIONS FOR SUMMARY JUDGMENT

Defendants Asustek Computer, Inc. and ASUS Computer International, Inc. (Asustek) and Defendants Q-Lity Computer. Inc., Quanta Computer Inc., and Quanta Computer USA, Inc. (Quanta) move for summary judgment that a cross license agreement between Plaintiff LG Electronics (LGE) and Intel precludes LGE from seeking damages for infringement from Defendants with respect to five of the six patents at issue here.[1] LGE opposes the motion and cross-moves for summary judgment that the LGE-Intel Cross License Agreement (LGE-Intel License) did not exhaust LGE's rights in the five patents and did not create an implied license between LGE and Intel's downstream customers. The matter was heard on June 14, 2002. Having considered all of the papers filed by the parties and oral argument on the motion, the Court grants Defendants' motion for summary judgment and denies LGE's cross motion for summary judgment. (Docket 01-00326 # # 170, 178; Docket 01-02187 # # 144, 156).

LEGAL STANDARD

Summary judgment is properly granted when no genuine and disputed issues of material fact remain, and when, viewing the evidence most favorably to the non-moving party, the movant is clearly entitled to prevail as a matter of law. Fed. R. Civ. P. 56; *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986); *Eisenberg v. Ins. Co. of N. Am.*, 815 F.2d 1285, 1288-89 (9th Cir. 1987).

The moving party bears the burden of showing that there is no material factual dispute. Therefore, the Court must regard as true the opposing party's evidence, if supported by affidavits or other evidentiary material. *Celotex*, 477 U.S. at 324; *Eisenberg*, 815 F.2d at 1289. The Court must draw all reasonable inferences in favor of the

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[1] Defendant Everex Systems, Inc. joins in the motions of Asustek and Quanta.

party against whom summary judgment is sought. *Matsushita Elec. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 89 L. Ed. 2d 538, 106 S. Ct. 1348 (1986); *Intel Corp. v. Hartford Accident & Indem. Co.*, 952 F.2d 1551, 1558 (9th Cir. 1991).

Material facts which would preclude entry of summary judgment are those which, under applicable substantive law, may affect the outcome of the case. The substantive law will identify which facts are material. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986).

Where the moving party does not bear the burden of proof on an issue at trial, the moving party may discharge its burden of showing that no genuine issue of material fact remains by demonstrating that "there is an absence of evidence to support the nonmoving party's case." *Celotex*, 477 U.S. at 325. The moving party is not required to produce evidence showing the absence of a material fact on such issues, nor must the moving party support its motion with evidence negating the non-moving party's claim. *Id.*; *see also Lujan v. Nat'l Wildlife Fed'n*, 497 U.S. 871, 885, 111 L. Ed. 2d 695, 110 S. Ct. 3177 (1990); *'Bhan v. NME Hosps., Inc.*, 929 F.2d 1404, 1409 (9th Cir. 1991), *cert. denied*, 502 U.S. 994, 116 L. Ed. 2d 639, 112 S. Ct. 617 (1991). If the moving party shows an absence of evidence to support the non-moving party's case, the burden then shifts to the opposing party to produce "specific evidence, through affidavits or admissible discovery material, to show that the dispute exists." *Bhan*, 929 F.2d at 1409. A complete failure of proof concerning an essential element of the non-moving party's case necessarily renders all other facts immaterial. *Celotex*, 477 U.S. at 323.

Where the moving party bears the burden of proof on an issue at trial, it must, in order to discharge its burden of showing that no genuine issue of material fact remains, make a prima facie showing in support of its position on that issue. *See UA Local 343 v. Nor-Cal Plumbing, Inc.*, 48 F.3d

1465, 1471 (9th Cir. 1994). That is, the moving party must present evidence that, if uncontroverted at trial, would entitle it to prevail on that issue. *See id.*; *see also Int'l Shortstop, Inc. v. Rally's. Inc.*, 939 F.2d 1257, 1264-65 (5th Cir. 1991). Once it has done so, the non-moving party must set forth specific facts controverting the moving party's prima facie case. *See UA Local 343, 48 F.3d at 1471.* The non-moving party's "burden of contradicting [the moving party's] evidence is not negligible." *Id.* This standard does not change merely because resolution of the relevant issue is "highly fact specific." *See id.*

BACKGROUND

LGE owns U.S. Patent Nos. 4,918,645 ('645 patent), 4,939,641 ('641 patent), 4,926,419 ('419 patent), 5,077,733 ('733 patent), and 5,379,379 ('379 patent).

On September 7, 2000, LGE entered into the LGE-Intel License. Pursuant to this agreement, Intel paid to LGE a certain sum of money and agreed to provide an additional amount in discounts on future purchases. The LGE-Intel License gives Intel the right to manufacture products that would otherwise infringe any of the patents owned by LGE, including the patents at issue here. The LGE-Intel License expressly disclaims any implied license to Intel customers who combine products covered by the LGE-Intel License with non-Intel products. Several days prior to entering into the LGE-Intel License, Intel sent a letter to all its customers, including Defendants, informing them that its license with LGE "does not extend, expressly or by implication to any product that you may make by combining an Intel product with any non-Intel product."

Intel produces microprocessors and chipsets that are covered by the LGE-Intel License. Defendants purchase these microprocessors and chipsets from Intel or its authorized distributors and install the licensed Intel microprocessors and chipsets into computers that they

manufacture.[2] LGE contends that many of these computers infringe its patents. A number of the micro processors and chipsets disclosed in LGE's infringement contentions are manufactured by Intel. LGE does not contend that the Intel microprocessors and chipsets, alone, infringe any of the patents at issue here. Rather, LGE's claim charts reveal that the licensed Intel products meet many of the limitations of the patents and, when combined with other components in the accused devices, infringe five of its patents.

For purposes of this motion, Defendants accept LGE's claim construction and argue that under this claim construction, LGE's infringement claims are barred to the extent the alleged infringement depends upon the authorized use of a licensed Intel component for its intended and sole purpose.

DISCUSSION

LGE has brought suit against Asustek, Quanta, and other defendants, alleging infringement of six of its patents. Defendants here move for partial summary judgment of non-infringement with respect to five of the six patents. Defendants argue that one or both of the related doctrines of patent exhaustion and implied license apply to the five patents. Both doctrines may apply when a patentee has licensed its patent or sold a device embodying the patent. Both doctrines limit the patentee's right to claim infringement against downstream users of its patent or sellers of devices that embody the patent. Although the patent exhaustion doctrine and the doctrine of implied license operate in similar fashion, with often indistinguishable results, different legal theories underlie the two doctrines.

The patent exhaustion doctrine (also known as the "first sale rule") is derived from the statutory grant of exclusivity

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[2] To the extent that Defendants manufacture products using non-Intel microprocessors and chipsets, those products are not at issue in this motion.

to the patentee. Once a patentee abandons its statutory right to exclusivity through the sale of a patented product or the license of the patent itself, there is no statutory basis for the patentee to impose restrictions or secure royalties on the subsequent use of the invention. *Bloomer v. McQuewan*, 55 U.S. 539, 549, 14 L. Ed. 532 (1852) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of confers."). When a patentee has sold "the thing patented," he has exhausted his right to exclusivity in the invention. *Wilson v. Rousseau*, 45 U.S. 646, 683, 11 L. Ed. 1141 (1846). "When the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Adams v. Burke*, 84 U.S. 453, 456, 21 L. Ed. 700, 1885 Dec. Comm'r Pat. 438 (1873).

The implied license doctrine, on the other hand, derives not from statute, but from principles of equity.

> The relatively few instances where implied licenses hive been found rely on the doctrine of equitable estoppel. One common thread in cases in which equitable estoppel applies is that the actor committed himself to act, and indeed acted, as a direct consequence of another's conduct. Thus, an implied license cannot arise out of the unilateral expectations or even reasonable hopes of one party. One must have been led to take action by the conduct of the other party.

Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903, 925 (Fed. Cir. 1984) *(quoting Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1559 (Fed. Cir. 1983)). In some circumstances, therefore, although a patent may not be exhausted such that the patentee has abandoned its statutory right to exclude,

the patentee may, through its own conduct, grant an implied license to practice the patent to certain downstream purchasers. Principles of equity determine whether the patentee's conduct has created such a license. "A mere sale does not import a license except where the circumstances plainly indicate that the grant of a license should be inferred." *Id.* (quoting *Hunt v. Armour & Co.*, 185 F.2d 722, 729 (7th Cir. 1950)).

In sum, the patent exhaustion doctrine applies when a patentee has, in essence, sold its statutory right to exclusivity through the unrestricted sale or license of the patent. A patentee who has not abandoned its statutory right to exclude others from the use of its patent may nevertheless, through conduct that induces reliance, grant to particular parties an implied license to practice the patent. Although similar in effect, the doctrines require distinct analysis. To determine if a patent was exhausted, the court must assess whether the terms of the patentee's sale remove the invention from the protection of the patent law. The determination of whether an implied license exists, however, is necessarily more fact specific. The court must determine whether the patentee's acts led the accused infringer to believe it had acquired the right to practice the patented invention.

A. Patent Exhaustion

The patent exhaustion doctrine was articulated by the Supreme Court over a century ago. *Adams*, 84 U.S. at 456. The doctrine is designed to prevent a patentee from receiving a double royalty on a single patented invention. To this end, "an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter." *B. Braun Medical. Inc. v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997).

Defendants argue that this standard is met in the present circumstance. Intel's microprocessor and chipsets are specifically covered by the LGE-Intel License. Declaration of Quoc Huy Do (Do Dec.), Ex. A (LGE-Intel

License) §§ 1.13, 1.6, 1.24 (chipsets and microprocessors are Intel Licensed Products within the meaning of the agreement). The License authorizes Intel to "make, use, sell (directly or indirectly), offer to sell, import and otherwise dispose of all Intel Licensed Products" without infringing LGE's patents. The unrestricted license granted by LGE to Intel is equivalent to a "sale" for purposes of the patent exhaustion doctrine. *United States v. Masonite Corp.*, 316 U.S. 265, 278, 86 L. Ed. 1461, 62 S. Ct. 1070, 1942 Dec. Comm'r Pat. 777 (1942) ("This Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern. The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article.") Therefore, because LGE licensed to Intel the right to practice LGE's patents and sell products embodying its patents—and Intel's production and sale of its microprocessors and chipsets are covered by this agreement—LGE forfeited its potential infringement claims against those who legitimately purchase and use the Intel microprocessor and chipset.

LGE, however, points out that the Intel microprocessor and chipset do not read on any of the five patents at issue in this motion. The Intel-produced components include some elements of the patents, but those components must be combined with other technology to infringe the patents. LGE argues that it did not exhaust its rights in the patents in suit by licensing Intel to make a product that does not infringe those patents.

Defendants reject LGE's narrow reading of the patent exhaustion doctrine. They contend that the licensing of the microprocessor and chipset exhausted the patents in suit because the microprocessor must be combined with other computer components in an a manner that allegedly infringes LGE's patents in order to function. Declaration of Raymond Chen (Chen Dec.) PP 11-14; Declaration of Danny Tang (Tang Dec.) PPP 4-5. Defendants point out that

simply by installing the microprocessor in a computer in accord with its intended and sole purpose, Defendants allegedly infringed LGE's five patents. *See* LGE 3-1 Supp. Discl., Tabs 1-5 (identifying Intel chipsets as integral to its infringement claims). In other words, the Intel microprocessor has no non-infringing use. Consequently, the LGE-Intel License not only exhausted LGE's rights in the Licensed Products, but also exhausted LGE's right to claim infringement against any device that uses the licensed microprocessor and chipset for its intended purpose in the manner recommended by Intel.

In support of their contention that the License exhausted LGE's patent rights with respect to necessary and contemplated combinations of Intel microprocessors with other technology, Defendants rely on *United States v. Univis Lens Co.*, 316 U.S. 241, 86 L. Ed. 1408, 62 S. Ct. 1088, 1942 Dec. Comm'r Pat. 789 (1942).

1. United States v. Univis Lens Co.

In Univis Lens, the United States alleged that a resale price maintenance scheme implemented by the defendant Univis Lens Corporation (Univis Corporation) violated the Sherman Antitrust Act. Univis Corporation owned several patents relating to the manufacture of multi-focal lenses. 316 U.S. at 246-247. It maintained downstream prices on finished lenses through a detailed licensing structure. First, Univis Corporation licensed to Univis Lens Company (Lens Company) the right to manufacture "lens blanks." Lens blanks "are rough opaque pieces of glass of suitable size, design and composition for use when ground and polished, as multifocal lenses in eyeglasses." *Id.* at 244. The manufacture of lens blanks was a necessary first step in producing multi-focal lenses.

In addition, Univis Corporation issued licenses to three classes of downstream distributors of the lens blanks. Wholesalers were "authorized to purchase the blanks from the Lens Company, to finish them by grinding and polishing, and to sell them to prescription licensees at prices fixed by

[Univis] Corporation." *Id.* at 244. Licenses granted to "finishing retailers" had similar provisions: the finishing retailers were authorized to purchase lens blanks from the Lens Company, grind and polish and adjust them, and sell them to consumers at Prescribed prices. *Id.* at 244 "Prescription retailers," unlike wholesalers and "finishing retailers," did not have the ability to grind and finish lenses. They were authorized to purchase finished lenses from a licensed wholesaler, adjust them to the needs of a specific consumer, and sell them at prices determined by the corporation. *Id.* at 245.

It was undisputed that "the invention of only a single lens patent is utilized in making each blank and finishing it as a lens." *Id.* at 248. The Court "assumed without deciding" that the wholesalers and finishing retailers practiced this patent when they ground and polished the lens blanks. *Id.* at 248-49. For purposes of its decision, therefore, the Court held that the manufacture of lens blanks did not practice the patent at issue. Rather, the patent was not practiced until the multi-focal lens was produced by the wholesalers or finishing retailers. Univis Corporation argued that it could lawfully condition a license to practice its patent on the maintenance by its licensees of prescribed prices.

The Court rejected this argument. The Court noted that "each blank ... embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent.... The only use to which [the lens blank] could be put and the only object of the sale is to enable the (wholesaler and finishing retailers] to grind and polish it for use as a lens by the prospective wearer." *Id.* at 249. In this circumstance, the Court found that the corporation had relinquished its patent monopoly when its licensee sold lens blanks to wholesalers and finishing retailers.

> An incident to the purchase of any article, whether patented or unpatented, is the right to

> use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article Bold. Sale of a lens blank by the patentee or by his licensee is thus in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure. In the present case the entire consideration and compensation for both is the purchase price paid by the finishing licensee to the Lens Company.

Id.

The Court referred to several cases applying the doctrine of patent exhaustion as additional support for its holding. "The patentee may surrender his monopoly in whole by the sale of his patent .... His monopoly remains so long as he retains the ownership of the patented article. But the sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Id.* at 250 (citing *Bloomer v. McQuewan*, 55 U.S. 539, 14 L. Ed. 532 (1852); *Adams v. Burke*, 84 U.S. 453, 21 L. Ed. 700, 1885 Dec. Comm'r Pat. 438 (1873); *Hobbie v. Jennison*, 149 U.S. 355, 37 L. Ed. 766, 13 S. Ct. 879, 1893 Dec. Comm'r Pat. 352 (1893)).

Thus, the Court concluded:

> We think that all the considerations which support these results lead to the conclusion that where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.

Id. at 250-51.

The United States District Court for the Eastern District of Texas applied Univis Lens to facts similar to those at issue here. In *Cyrix Corp. v. Intel Corp.*, 846 F. Supp. 522 (E.D. Tex. 1994), Cyrix, a manufacturer of personal computers, sought declaratory relief that it did not infringe the defendant Intel's patent. In a separate suit, Intel sought a judgment that Cyrix infringed the '338 patent owned by Intel. The actions were consolidated.

Claim 1, the only independent claim of the '338 patent, was "directed to a memory management circuit for a microprocessor device." 846 F. Supp. at 527. Claims 2 and 6 of the patent covered the use of the claim 1 device in combination with external memory. *Id.* at 528. Cyrix had purchased microprocessors from a licensee of Intel and installed them in its computers in combination with external memory. *Id.* at 525. The parties stipulated that the Intel microprocessors purchased by Cyrix embodied claim 1 of the patent. *Id.* The parties further 'stipulated that Intel had exhausted its patent rights with respect to the microprocessor because Cyrix's purchase of the device had been an authorized sale from a licensed manufacturer. *Id.* at 525. Intel, however, contended that Cyrix infringed claims 2 and 6 of the patent by combining its licensed microprocessor with external memory.

The court found that the authorized license and sale of the claim 1 device also exhausted Intel's rights pursuant to claims, 2 and 6 of the patent. Critical to this holding was the court's finding that the

> microprocessors have no uses unless they are combined with external memory ... as described by claims 2 and 6. Thus to the extent that Intel has asserted that claim 1 of the '338 patent covers Cyrix's microprocessors—both as made and sold to Cyrix by ST and TI (the licensees], and as used and re-sold by Cyrix and/or its customers—those microprocessors cannot be used for any purpose without necessarily

> forming the combination of, and infringing, claims 2 and 6.

Id. at 537. Because the patented device had no utility other than in an infringing combination, the court held that Univis Lens controlled. "Cyrix's microprocessors thus are like the lens blanks in Univis Lens which, although completed lens blanks, had no use other than to be ground into finished lenses in accordance with patents owned by the Lens Company." *Id.* at 540.

Citing *Univis Lens*, the Cyrix court held, "The patent exhaustion doctrine is so strong that it applies even to an incomplete product that has no substantial use other than to be further manufactured into a completed patented and allegedly infringing article." *Id.*; *see also Minebea Co. Ltd. v. Papst*, 13 F. Supp. 2d 35, 44 (D.D.C. 1998) ("One aspect of the patent exhaustion doctrine provides that when a patent holder sells 'an incomplete product that has no substantial use other than to be further manufactured into a completed patented and allegedly infringing article,' the patent holder cannot claim that the final product infringes his patent.") (citing Cyrix and Univis Lens).[3]

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[3] LGE contends that *Cyrix* is distinguishable from the case at bar because, in *Cyrix*, the product purchased by the defendant embodied one claim of the patent-in-suit while the Intel microprocessors and chipsets at issue here do not, on their own, read on any claims of the allegedly infringed patents. Consequently, LGE argues that *Cyrix* supports its contention that a patent is exhausted only by the sale of a product that fully embodies at least one claim in the patent.

LGE's interpretation of *Cyrix* is not consistent with the language or the rationale of that order. In describing the patented product at issue in that case, the *Cyrix* court emphasized that the microprocessors were, like the lens blanks in *Univis Lens*, "unfinished" and "need[ed] to be combined with external memory to be used." 846 F. Supp. at 540. Thus, the *Cyrix* court discussed in detail the lack of any non-infringing use for the device at issue and held, "because the intended use of Cyrix's microprocessors is with external memory ... neither Cyrix nor its customers can infringe claims 2 or 6 of the '338 patent." *Id.*

This reasoning is not consistent with LGE's contention that the fact that the microprocessor embodied claim 1 of the patent rendered the

Defendants contend that under *Univis Lens*, as properly applied in *Cyrix*, the patent exhaustion doctrine precludes LGE from seeking damages from Defendants. Intel's use of LGE's patents in its microprocessors was pursuant to a valid licensing agreement. Defendants, in turn, purchased the licensed products and installed them in computers in accordance with the specifications provided by Intel. Defendants contend that, like the lens blanks in Univis and the microprocessors in Cyrix, the Intel microprocessors have no utility except as components in computer systems like those manufactured by Defendants. Consequently, LGE's rights under the five patents at issue here were exhausted by the LGE-Intel Cross License Agreement.[4]

As noted above, LGE argues that the patent exhaustion doctrine applies only to the sale of a patented device and, because the Intel microprocessor does not, on its own, embody any of the claims in the five patents at issue here, LGE's rights under those patents are not exhausted. LGE contends that *Univis Lens* does not stand for a contrary position because *Univis Lens* did not deal with the patent exhaustion doctrine at all. Rather, *Univis Lens* applied the related but distinct doctrine of implied license.

As the above quoted portions of the decision make clear, however, the *Univis* Court relied heavily on precedent articulating the patent exhaustion doctrine. The Court

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entire patent exhausted. Had the *Cyrix* court adopted this reasoning, it would not have needed to discuss non-infringing' uses. Nor would the fact that the microprocessor only functioned in combination with other components have been relevant. Rather, the parties' stipulation that the device embodied claim 1 of the would, patent alone, have been sufficient to determine that the patent was exhausted.

Consequently, the holding and reasoning of *Cyrix* is persuasive authority for the proposition that the sale or license of an essential element of a patented device may exhaust the patentee's statutory right to exclude others from making, selling or using that device.

[4] To the extent that the allegedly infringing products do not use Intel microprocessors and chipsets that are covered by the LGE-Intel License, the patent exhaustion doctrine is not applicable.

emphasized that Univis Corporation, by licensing the lens blanks, had "received [its] reward for the use of [its] invention." Consequently, "the patent law affords no basis for restraining the use or enjoyment of the thing sold." *Univis Lens*, 316 U.S. at 251. This holding is based on an interpretation of the patent statute and is derived from the principles underlying the patent exhaustion doctrine.

Significantly, the Court did not, as an implied license analysis would require, apply equitable principles to determine if Univis Corporation had acted in a manner that induced wholesalers and retailers to believe they had an unconditional right to make and sell the patented invention. In fact, the circumstances in *Univis* suggest that an implied license would not have been appropriate because Univis Corporation clearly indicated to both F wholesalers and retailers—through separate licensing agreements—that their purchase of lens blanks did not, on its own, include a license to practice the patent. *Id.* at 245 ("All the licenses to wholesalers and retailers recite the Corporation's ownership of the lens patents and purport to confer on the licensee the privilege of selling the patented invention in the manner and to the extent stated.")

The Court found that by licensing the right to manufacture and sell lens blanks (the first step in practicing the patent in suit) and separately licensing the right to grind and finish lenses (the final step in the patent), Univis Corporation had impermissibly extended its patent rights. Therefore, the Court held that the authorized sale of the lens blanks "relinquished" the patent monopoly. *Id.* at 249. In so finding, the Court built on earlier cases articulating the doctrine of patent exhaustion.

2. Federal Circuit Cases after Univis Lens

LGE also argues that although the *Univis Lens* Court may have relied on patent exhaustion cases to reach its conclusion, subsequent developments have refined the distinctions between the patent exhaustion doctrine and the grant of an implied license. According to LGE, these cases

reveal that, in retrospect, *Univis* was an implied license case because it did not deal with a "patented product" as required for the patent exhaustion doctrine to apply.

According to LGE, this critical limitation on the patent exhaustion doctrine was articulated in two more recent federal circuit cases, *Bandag* and *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999). In both *Bandag* and *Glass Equipment*, the court found the patent exhaustion doctrine inapplicable in the circumstances presented. In *Bandag*, the plaintiff had sold a non-patented device, a retreading machine, which was subsequently re-sold to the defendant. The defendant used the device to infringe a patent owned by plaintiff which covered a particular method of retreading tires. The defendant argued that the sale of the retreading machine precluded the plaintiff from claiming infringement of the method patent because the machine was designed to carry out its function in accord with the patented method. The court held that the patent exhaustion doctrine was "inapplicable here because the claims of the Carver patent are directed to a 'method of retreading' and cannot read on the equipment [the defendant) used in its cold processing recapping." 750 F.2d at 923-924. The court then analyzed the facts to determine if the sale of the device included an implied license to practice the method patent.

Similarly, in *Glass Equipment*, the plaintiff owned patents covering both a device—"a spacer frame assembly"—and a method for using that device. The plaintiff licensed a manufacturer to make corner keys, one of the components of the patented frame assembly. The manufacturer, in turn, sold the corner keys to an unlicensed customer who attempted to produce the patented frame assembly. 174 F.3d at 1340. The district court held that the purchase of the corner keys from a licensed manufacturer created an implied license to practice the method patents. *Id.* The Federal Circuit reversed.

In a footnote, the court discussed why the case was properly analyzed under the implied license doctrine rather than the patent exhaustion doctrine.

> This case involves the question of whether the sale of an unpatented article grants an implied license to practice one or more methods claimed in a separate patent. This case does not involve the so-called 'first sale' doctrine .... Here, where the articles sold were corner keys, which are not themselves patented (they are merely embodiments of an unpatented element of the '195 patent claims) and the license issue concerns [the plaintiffs] right to exclude concerning the method patent, not the apparatus patent, the first sale doctrine is inapplicable to the analysis of the facts.

Id. at 1342 n. 1 (emphasis in original).

LGE contends that pursuant to this footnote in *Glass Equipment*, the patent exhaustion doctrine does not apply to "unpatented elements" of a patent in suit. The Intel microprocessors and chipsets, moreover, merely embody some elements of the broader patents in suit. Consequently, the patent exhaustion doctrine is inapplicable here.

However, the key fact in both *Bandag* and *Glass Equipment* was not whether the device utilized by the defendant was patented or not. More important was the fact that the plaintiffs in both cases alleged infringement of a method patent, and not infringement of an apparatus patent. The court, in both cases, held that the sale of a device, whether patented or unpatented, could not exhaust the patentee's rights under a separate patent teaching a method of accomplishing a specific function. *Bandag*, 780 F.2d at 924 (method patent cannot read on specific equipment); *Glass Equip.*, 174 F.3d at 1342 n.1 (patent exhaustion doctrine inapplicable because infringement claim concerned method patent, not apparatus patent).

Consequently, neither Bandag nor Glass Equipment provide a basis for adopting the limited interpretation of the patent exhaustion doctrine proffered by LGE.

LGE also relies on *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684 (Fed. Cir. 1986) for the proposition that *Univis* must be analyzed as an implied license case. LGE argues that the Federal Circuit held in *Met-Coil* that *Univis* was an implied license case and that this holding is binding here. In *Bandag*, moreover, the Federal Circuit held that a license will be inferred only if two conditions are met: the device at issue has no non-infringing use and equitable considerations counsel in favor of an implied license. 750 F.2d at 924, 925. LGE argues that neither of these two conditions are met here. Consequently, LGE argues that the Court is obliged to apply the two-step implied license analysis and application of that doctrine requires the Court to grant summary judgment to LGE.

In *Met-Coil*, the plaintiff owned a patent which claimed both an apparatus and a method for connecting sections of metal ducts of the kind used in heating and air conditioning systems. 803 F.2d at 685. Met-Coil made and sold "roll-forming" machines that were used to practice the claimed invention. The defendant, Korners, made corner pieces, which were sold to Met-Coil's customers for use in practicing the patent. Met-Coil sued Korners for contributory infringement. The district court held that the roll-forming machine was an "essential element" of the patent that had "no use other than in the practice of the duct connecting system." *Met-Coil Systems Corp. v. Korners Unlimited, Inc.*, 628 F. Supp. 130, 132 (W.D. Pa. 1986). The district court concluded that, under *Univis Lens*, the purchasers of the roll-forming machines could not infringe the patents because that case "limits a patent owner's efforts to control his invention after the sale of an essential element." *Id.*

The district court in *Met-Coil* referred to *Univis Lens* as an "implied license" case. *Id.* at 133 ("*Univis* ... dealt with

the implied license to complete an uncompleted article and ... must control the disposition of the present case."). However, what matters is not the label used to describe the doctrine, but the underlying rationale. The district court in *Met-Coil* did not assess the equities between the parties to determine whether "the circumstances plainly indicate that the grant of a license should be inferred." *Bandag*, 720 F.2d at 925. It is clear, therefore, that the district court *in Met-Coil*, like the *Cyrix* court, properly interpreted *Univis Lens* to hold that the sale of an essential element of a patent that has no use other than in the practice of the patent, exhausts the patentee's rights in that patent.

In fact, Met-Coil appealed the district court's order on the grounds that the court should have applied the implied license standard *Bandag*,from rather than the *Univis Lens* standard. *Met-Coil*, 803 F.2d at 686 ("On appeal, Met-Coil urges that the district court erred in relying on *Univis*. To support this proposition, Met-Coil cites *Bandag*."). The Federal Circuit affirmed the district court. In doing so, the appellate court applied the two-prong test from *Bandag* and held that even under this standard, judgment for the defendant was appropriate.

LGE argues that in affirming the district court judgment, the Federal Circuit also overruled the district court's reasoning, specifically its reliance on *Univis Lens*. However, there is no language in the opinion supporting this contention. Rather, the district court and Federal Circuit opinions, read together, suggest that the Federal Circuit held that summary judgment for Korners was appropriate under either the *Univis Lens* or the *Bandag* standard and refused to reach the question of which precedent was more on point.[5] In *Met-Coil*, the Federal Circuit did not

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[5] Alternatively the fact that Met-Coil alleged infringement of both a method patent and an apparatus patent may have informed the Federal Circuit decision. As noted above, the patent exhaustion doctrine does not apply when the patent-in-suit is a method patent. Consequently, the appellate court may have thought it necessary to apply *Bandag* to the

distinguish *Univis Lens*, nor did it criticize the district court's reliance on *Univis Lens*, nor did it indicate that *Univis Lens* had been refined or modified by subsequent cases. Therefore, there is no binding authority requiring this Court to treat *Univis Lens* as an implied license case. As noted above, the case does not lend itself to such a reading. Rather, consistent with the Supreme Court's holding in *Univis Lens*, the patent exhaustion doctrine applies to the sale of unpatented items that have no other function but as components in a finished, patented device.[6]

B. Non-Infringing Uses

To succeed on their motion for summary judgment, Defendants have the burden of presenting undisputed facts sufficient to show that the Intel microprocessor and chipset have no reasonable non-infringing use.[7] As noted above, it is undisputed that the microprocessors and chipsets

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method patent at issue, while affirming the district court's judgment with respect to the apparatus patent.

[6] After the hearing on this motion, LGE filed a motion for leave to bring supplemental authority to the Court's attention. That motion was granted on July 25, 2002 (Docket # 238). The authority identified by LGE is *Anton/Bauer v. PAG, Ltd.*, 2002 U.S. Dist. LEXIS 11583, 2002 WL 1359673 (D. Conn. June 13, 2002). LGE contends that Anton/Bauer supports its contention that *Met-Coil* refined the Supreme Court's holding in *Univis Lens*. However, *Anton/Bauer* does not discuss the distinction between the patent exhaustion doctrine and the granting of an implied license, it is factually dissimilar from the case at bar, and it is not binding on this Court. Therefore, the Court does not find *Anton/Bauer* persuasive authority for LGE's interpretation of *Univis Lens*.

[7] Consistent with its argument that the patent exhaustion doctrine applies only to the sale of patented products, LGE also argues that "reasonable non-infringing use" is not an element of this defense. Rather, LGE argues that the sale of a patented device exhausts the patent regardless of whether the device may be used in a non-infringing manner. However, as already noted, the patent exhaustion doctrine also applies to the sale of non-patented devices which have no use other than as components in a device that practices the patent. When such a circumstance is presented, the party raising the defense must also show that the device has no reasonable non-infringing use. *Cyrix*, 846 F. Supp. at 535.

purchased by Defendants are Licensed Products within the meaning of the LGE-Intel License. It is also undisputed that Intel or its authorized agent sells microprocessors and chipsets to Defendants. Declaration of Le-Chin Chang (Chang Dec.) PP 3-4; Chen Dec. P 8. Incident to the sale of the Licensed Products, Intel provides to Defendants technical specifications necessary to incorporate the microprocessors and chipsets into Defendants' products. Declaration of Danny Tang (Tang Dec.) PP 11-12; Chen Dec. PP 11-12. The failure to follow Intel's design specification would render Defendants' computers inoperable. Chen Dec. P 13; Tang Dec. P 5. LGE claims that by incorporating the Intel microprocessors and chipsets into their computers in accordance with Intel's design specifications, Defendants infringe five of LGE's patents. *See* LGE 3-1 Supp. Discl., Tabs 1-5 (identifying Intel chipsets as integral to its infringement claims).

This evidence, taken together, establishes that the Intel microprocessors and chipsets are designed and intended by Intel to be used in computers in accordance with Intel's technical specification and that such use is the sole contemplated use for the devices. This is sufficient to satisfy Defendants' prima facie case that there are no reasonable non-infringing uses and the burden, therefore, shifts to LGE to refute this showing. *Met-Coil*, 803 F.2d at 687.

LGE proffers two non-infringing uses for the Intel microprocessors and chipsets. First, LGE argues that Defendants' use of the Licensed Products in their computers would not infringe LGE's patents if Defendants only sold their computers outside the United States. See *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1033 (Fed. Cir. 1995) ("a United States patent grants rights to exclude others from making, using and selling the patented invention only in the United States"). LGE contends that the use and sale of computers incorporating the Intel microprocessors and chipsets outside the

geographic scope of the patent laws would constitute a reasonable, non-infringing.[8]

Including foreign use as an example of a reasonable, non-infringing use in this context would eviscerate the defenses of patent exhaustion and implied license. As a general rule, an alleged infringer could always limit its infringing activities to foreign jurisdictions, yet no court has as yet found this fact to constitute a reasonable non-infringing use. Rather, courts have uniformly emphasized that a non-infringing use must be a use that does not practice the patent. *See e.g. Met-Coil*, 803 F.2d at 685 (parts had no use other than "in the practice" of the patented system); *Bandag*, 750 F.2d at 925 (reasonable non-infringing uses include resale of equipment or use of equipment as replacement parts).

In the context of contributory infringement, courts have rejected the argument that one could establish a "substantial non-infringing use" by focusing on activity outside the United States. *Lucas Aerospace, Ltd. v. Unison Indus., L.P.*, 899 F. Supp. 1268, 1287 (D. Del. 1995). In that context, the Lucas Aerospace court looked to whether the component has a "use other than to be combined with other items that together fall within the metes and bounds of the claims of the patent." *Id.* Precedent and policy dictate that

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[8] At the hearing on this motion, LGE refined this argument, contending that foreign use is not, per se, a reasonable non-infringing use, but that such use is reasonable for these Defendants. LGE argued that because Defendants Quanta and Asustek are foreign corporations with manufacturing facilities outside the United States, it is reasonable for these Defendants to restrict their sales to purchasers outside the United States. Defendants' domicile and the location of their production facilities are not relevant to determining whether there are reasonable, non-infringing uses for Intel chipsets and microprocessors. Such a distinction would be unworkable in practice as many corporations, both foreign and domestic, maintain multiple manufacturing facilities both within and outside the United States. LGE offers no principled manner to determine when a corporation has sufficient contacts outside the United States such that it is reasonable for it to abandon sales within these borders.

a similar rule be adopted with respect to the defenses of patent exhaustion and implied license.[9]

LGE also argues that the Intel microprocessors and chipsets can be used as replacement parts. It is undisputed that the Intel microprocessors and chipsets that are the subject of the License Agreement cannot be used as replacement parts for an earlier generation of Intel products because the new generation of Intel microprocessors and chipsets have different socket configurations than previous products. Do Dec. PP 11-12; Chen Dec. P 19. LGE nevertheless contends that the Intel microprocessors and chipsets can be used as replacements parts for new generation processors that no longer function properly.

In support of its contention that the Intel microprocessors and chipsets have a reasonable, non-infringing use as replacement parts for LGE licensed products, LGE again cites Bandag. In that case, the court found the authorized purchase of certain equipment did not create an implied license to practice a method patent owned by the plaintiff. The court identified several potential non-infringing uses for the equipment, including reselling the equipment either as a package or piecemeal, using the equipment in a manner that did not infringe the method patent at issue, refraining from using the equipment until expiration of the patent in eighteen months, and using the equipment as replacement parts. 750 F.2d at 923-925.

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[9] In *Bandag*, 750 F.2d at 925, the court noted, in addition to several non-infringing uses, that "it may even have been reasonable to refrain from operating the equipment until expiration of the patent [in eighteen months] rather than to risk infringement." LGE argues that there is no principled distinction between an otherwise infringing use outside the temporal scope of the patent and one outside the geographic scope. However, the 'Bandag court's statement that a temporal limitation on use of the patented device "may" be reasonable was dependant on the facts of that case where the patent had almost expired. The geographic limitation urged by LGE would have no such limits and would apply to every case where the defenses of patent exhaustion (with respect to a non-patented component) or implied license was raised.

Given the multiple potential non-infringing uses, the Bandag court held that the defendant had not satisfied its burden of showing that "any of these options would have been unwise from a business standpoint." *Id.* at 925.

The microprocessors and chipsets at issue here cannot be disassembled and they cannot be used to carry out a non-patented function. Nor would it be reasonable for Defendants to refrain from manufacturing computers for the life of LGE's patents. The limited utility off the microprocessors and chipsets as replacement parts is not, alone, a sufficient non-infringing use. Defendants are manufacturers of computers. It would not be wise from a business standpoint for them to purchase computer components solely for resale to LGE or Intel, the licensor and manufacturer of the products to be sold. Consequently, unlike Bandag, Defendants have satisfied their burden of showing that potential non-infringing uses would be "unwise from a business standpoint." *Id.*

C. Implied License

The parties also cross move for summary judgment on whether the LGE-Intel License governing the Intel microprocessors and chipsets provided an implied license to purchasers of the licensed products to use those products for their intended purpose without infringing any LGE patents. To prevail on an implied license defense, the alleged infringer must show both that the device sold by the patentee has no reasonable, non-infringing use, and that "the circumstances plainly indicate that the grant of a license should be inferred." *Id.*; *Mel-Coil*, 803 P.2d at 686. This second requirement will be met when the elements of equitable estoppel are satisfied. *Bandag*, 750 F.2d at 925. In other words, if the patentee's actions lead the alleged infringer to believe that it has a license to use the invention and, in reliance on those actions, the alleged infringer practices the patent, the court may determine that the patentee's actions created an implied license.

Defendants contend that simply by entering into the LGE-Intel License LGE acted to induce reliance by Defendants. However, the License itself expressly disclaims the creation of an implied license. LGE-Intel License § 3.8. Moreover, before the LGE-Intel License became effective, Intel sent letters to Defendants advising them of the existence of the license, but expressly notifying them that "while this patent license that LGE granted to Intel covers Intel's products, it does not extend, expressly or by implication, to any product that you may make by combining an Intel product with any non-Intel product." Declaration of David M. Morris (Morris Dec.) Ex. 14, 15.

LGE contends that because Intel expressly informed Defendants that the LGE-Intel License provided no corresponding license to Defendants, Defendants cannot credibly argue that they "acted as a direct consequence of another's conduct" or that they were "led to take action by the conduct of the other party." *Bandag*, 750 F.2d at 925.

The question presented is whether the express disclaimer of the grant of an implied license was effective. However, under the patent exhaustion doctrine as articulated in *Univis Lens*, LGE may not enforce its patents against purchasers of Intel microprocessors and chipsets who use those devices for their intended and sole purpose. Therefore, the Court need not determine whether the implied license doctrine also applies to the sale of Intel microprocessors and chipsets. The cross motions for summary judgment on the defense of implied license are therefore denied as moot.[10]

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[10] LGE also argues that Defendants' motion should be denied pursuant to *Federal Rule of Civil Procedure 56(f)*. however, the discovery LGE seeks relates to the circumstances of Defendants' purchase of the Intel components. This discovery would be relevant to the question of whether circumstances show that the grant of a license should be implied. LGE's motion pursuant to *Rule 56(f)* is also moot.

CONCLUSION

For the foregoing reasons, Defendants' motion for summary judgment is granted (Docket 01-00326 # 170; Docket 01-02187 # 144). LGE's cross motion is correspondingly denied (Docket 01-00326 # 178; Docket 01-02187 # 156).

Dated: AUG 20 2002

CLAUDIA WILKEN
United States District Judge

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA.

LG ELECTRONICS, INC.,
Plaintiff and Counterclaim Defendant

v.

ASUSTEK COMPUTER, INC., and USUS Computer International, Inc.,

Bizcom Electronics, Inc., Compal Electronics, Inc., and Sceptre Technologies, Inc.,

First International Computer, Inc. and First International Computer of America, Inc.,

Q-Lity Computer, Inc., Quanta Computer, Inc., and Quanta Computer USA, Inc.,

Everex Systems, Inc., Defendants and Counterclaimants.

Nos. C 01-00326 CW, C 01-01375 CW, C 01-01594 CW, C 01-02187 CW, C 01-01552 CW.

Feb. 6, 2003.

ORDER GRANTING IN PART DEFENDANTS' MOTION FOR SUMMARY ADJUDICATION AND GRANTING IN PART PLAINTIFF'S MOTION FOR SUMMARY ADJUDICATION

WILKEN, District Judge.

In these five lawsuits, Plaintiff LG Electronics, Inc. (LGE) raises claims of patent infringement against

Defendant companies. In May, 2002, Defendants Asustek Computer, Inc. and Asus Computer International, Inc. (Asustek) and Defendants Q-Lity Computer, Inc., Quanta Computer Inc., and Quanta Computer USA, Inc. (Quanta) moved for summary adjudication. The Court granted Defendants Asustek and Quanta's motions on August 20, 2002. In September, 2002, Defendants First International Computer, Inc. and First International Computer of America, Inc. (FIC) and Defendants Compal Electronics, Inc., Bizcom Electronics, Inc., and Sceptre Technologies (Compal) moved for summary adjudication, arguing that this Court's August 20 Order also entitled them to summary adjudication. LGE opposed the motion, citing reasons other than those raised in its opposition to Asustek and Quanta's motions why summary adjudication would not be proper. LGE also cross-moved for summary adjudication of the same issues. After considering the papers and oral argument on the motions, the Court concluded that LGE's opposition and cross-motion should be deemed a request for reconsideration of the Court's August 20, 2002 Order. The Court provided the parties with the opportunity to submit additional briefing. After considering all of the papers filed by all parties and oral argument on all motions, the Court now clarifies its prior grant of summary adjudication in favor of Defendants Asustek and Quanta, grants summary adjudication in favor of all Defendants on Defendants' claim that the patent exhaustion doctrine precludes them from being liable for infringement of LGE's device patents, and grants summary adjudication in favor of LGE on LGE's claim that Defendants do not have an implied license to practice LGE's method patents.

BACKGROUND

LGE owns U.S. Patent Nos. 4,918,645, 4,939,641, 4,962,419, 5,077,733, 5,379,379, and 5,892,509. LGE alleges that Defendants infringe these patents. The motions now pending before the Court all involve one issue: whether, and to what extent, Defendants' purchase of

microprocessors and chipsets from Intel, a licensee of LGE, is a defense to LGE's charges of patent infringement.

All Defendants purchase microprocessors and chipsets from Intel or its authorized distributors and install these microprocessors and chipsets into computers that they manufacture.[1] LGE alleges that the computers that incorporate these microprocessors and chipsets infringe its patents. The microprocessors and chipsets are covered by the terms of a licensing agreement that LGE entered into with Intel on September 7, 2000. The LGE-Intel License gives Intel the right to manufacture products that would otherwise infringe any of the patents owned by LGE, including the patents at issue here. The LGE-Intel License expressly disclaims any implied license to Intel customers who combine products covered by the LGE-Intel License with non-Intel products. Defendants were informed of this limitation on the LGE-Intel License when, several days prior to entering into the LGE-Intel License, Intel sent a letter to all its customers, including Defendants, informing them that its license with LGE "does not extend, expressly or by implication to any product that you may make by combining an Intel product with any non-Intel product."

In May, 2002, Asustek and Quanta moved for summary adjudication, contending *inter alia* that under these circumstances LGE's patent rights were exhausted by its licensee Intel's sale of microprocessors and chipsets to Defendants. LGE responded that the sale of the microprocessors and chipsets to Defendants did not exhaust its patent rights because the sale of such unpatented components is not sufficient to exhaust the patentee's patent rights. In its August 20, 2002 Order, the Court rejected LGE's contention that the sale of unpatented components cannot exhaust the patentee's patent rights.

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[1] To the extent that Defendants manufacture products using non-Intel microprocessors and chipsets, those products are not at issue in this motion.

The Court relied on *United States v. Univis Lens Co.*, 316 U.S. 241, 250-51, 62 S.Ct. 1088, 86 L.Ed. 1408 (1942), in which the United States Supreme Court held that:

> where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.

The Court concluded that LGE's licensee's sale of the unpatented microprocessors and chipsets did in fact exhaust LGE's patent rights because those microprocessors and chipsets were "destined ... to be finished by the purchaser in conformity with the patent" because they have no reasonable non-infringing use. Therefore, the Court granted Asustek and Quanta's motions for summary adjudication on the basis that the patent exhaustion doctrine precluded LGE from recovering damages from Asustek and Quanta for the allegedly infringing devices that incorporate microprocessors and chipsets purchased from Intel.

FIC and Compal now move for summary adjudication of their claim that the patent exhaustion doctrine also precludes LGE from recovering damages from them. LGE opposes the motion. In doing so, LGE now contends for the first time that, even if the sale of unpatented components can exhaust the patentee's patent rights, Intel's sale of microprocessors and chipsets to Defendants did not do so here because that sale was not unconditional as required by the patent exhaustion doctrine. LGE also contends for the first time that the patent exhaustion doctrine cannot provide a defense for purchases made prior to the effective date of the LGE-Intel license and that the patent exhaustion doctrine does not prevent Defendants from being liable for infringement of its method patents. Because these issues are relevant to the patent exhaustion defense raised by all

of the Defendants, the Court deemed LGE's submissions to be a request for reconsideration. The Court now resolves these issues with respect to all Defendants.

LEGAL STANDARD

Summary judgment is properly granted when no genuine and disputed issues of material fact remain, and when, viewing the evidence most favorably to the non-moving party, the movant is clearly entitled to prevail as a matter of law. Fed. R. Civ. Proc. 56; *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Eisenberg v. Ins. Co. of N. Am.*, 815 F.2d 1285, 1288-89 (9th Cir.1987).

Material facts which would preclude entry of summary judgment are those which, under applicable substantive law, may affect the outcome of the case. The substantive law will identify which facts are material. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986).

The moving party bears the burden of showing that there is no material factual dispute. Therefore, the Court must regard as true the opposing party's evidence, if supported by affidavits or other evidentiary material. *Celotex*, 477 U.S. at 324, 106 S.Ct. 2548; *Eisenberg*, 815 F.2d at 1289. The Court must draw all reasonable inferences in favor of the party against whom summary judgment is sought. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986); *Intel Corp. v. Hartford Accident & Indem. Co.*, 952 F.2d 1551, 1558 (9th Cir.1991).

Where the moving party does not bear the burden of proof on an issue at trial, the moving party may discharge its burden of showing that no genuine issue of material fact remains by demonstrating that "there is an absence of evidence to support the nonmoving party's case." *Celotex*, 477 U.S. at 325, 106 S.Ct. 2548. The moving party is not required to produce evidence showing the absence of a

material fact on such issues, nor must the moving party support its motion with evidence negating the non-moving party's claim. *Id.; see also Lujan v. Nat'l Wildlife Fed'n*, 497 U.S. 871, 885, 110 S.Ct. 3177, 111 L.Ed.2d 695 (1990); *Bhan v. NME Hosps., Inc.*, 929 F.2d 1404, 1409 (9th Cir.1991), *cert. denied*, 502 U.S. 994, 112 S.Ct. 617, 116 L.Ed.2d 639 (1991). If the moving party shows an absence of evidence to support the non-moving party's case, the burden then shifts to the opposing party to produce "specific evidence, through affidavits or admissible discovery material, to show that the dispute exists." *Bhan*, 929 F.2d at 1409. A complete failure of proof concerning an essential element of the non-moving party's case necessarily renders all other facts immaterial. *Celotex*, 477 U.S. at 323, 106 S.Ct. 2548.

Where the moving party bears the burden of proof on an issue at trial, it must, in order to discharge its burden of showing that no genuine issue of material fact remains, make a *prima facie* showing in support of its position on that issue. *See UA Local 343 v. Nor-Cal Plumbing, Inc.*, 48 F.3d 1465, 1471 (9th Cir.1994). That is, the moving party must present evidence that, if uncontroverted at trial, would entitle it to prevail on that issue. *See id.; see also Int'l Shortstop, Inc. v. Rally's, Inc.*, 939 F.2d 1257, 1264-65 (5th Cir.1991). Once it has done so, the non-moving party must set forth specific facts controverting the moving party's *prima facie* case. *See UA Local 343*, 48 F.3d at 1471. The non-moving party's "burden of contradicting [the moving party's] evidence is not negligible." *Id.* This standard does not change merely because resolution of the relevant issue is "highly fact specific." *See id.*

DISCUSSION

I. LGE's Patent Rights Were Exhausted by its Licensee's Unconditional Sale of Essential Components to Defendants

LGE argues that the patent exhaustion doctrine does not protect Defendants from liability for patent

infringement because the predicate requirement of an unconditional sale is not met here. According to LGE, Intel's sale of microprocessors and chipsets to Defendants was not unconditional, in that Defendants were expressly informed that their purchase of components from Intel did not grant them a license to infringe LGE's patents by combining those components with other non-Intel parts. LGE is correct that the patent exhaustion doctrine requires an unconditional sale. *B. Braun Medical, Inc. v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed.Cir.1997) ("[It is] an unconditional sale of a patented device [or its essential components that] exhausts the patentee's right to control the purchaser's use of the device thereafter."). Further, LGE is correct that it is entitled to impose conditions on the sale of its patented products or the essential components of its patented products, if it chooses. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706-08 (Fed.Cir.1992) (holding that the patent exhaustion doctrine is only applicable if there is an unconditional sale and that "private parties retain the freedom to contract concerning conditions of sale"). Nor is there any support in the case law for Defendants' contention that a patentee may not impose more onerous conditions on someone who purchases the patented device from a licensee than on the licensee.

However, the mere fact that LGE is entitled to impose conditions on the sale of the essential components of its patented products does not mean that it actually did so here. To the contrary, Defendants' purchase of the microprocessors and chipsets from Intel was unconditional, in that Defendants' purchase of microprocessors and chipsets from Intel was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resultant products. *Cf. Mallinckrodt, Inc.*, 976 F.2d at 709 (holding that conditional sales of patented devices are not per se illegal but remanding to the district court to determine if the sales at issue were actually conditional). Nor does the fact that Intel informed its customers that its

license with LGE "does not extend, expressly or by implication to any product that [they] may make by combining an Intel product with any non-Intel product" render conditional the sales from Intel to Defendants. As will be discussed in greater detail below, this letter is sufficient to negate the implication of a license to practice the LGE patent that might otherwise arise because Defendants purchased essential components of LGE's patented devices from a licensed source of those components. However, this letter is not sufficient to transform what would otherwise be the unconditional sale of the microprocessors and chipsets into a conditional one. This letter from Intel to its customers does not demonstrate that Defendants agreed as a condition of sale not to combine the microprocessors and chipsets purchased from Intel with non-Intel parts and not to sell the resultant products. Therefore, LGE's licensee's unconditional sale of the essential components of the patented devices to Defendants exhausted LGE's patent rights.

II. LGE's Claims Against Defendants Based on Purchases Made Prior to the Effective Date of the LGE-Intel License Are Barred by the Terms of the License

LGE argues that the patent exhaustion doctrine does not preclude it from pursuing claims with respect to products that incorporate microprocessors and chipsets purchased from Intel prior to the effective date of the LGE-Intel License. LGE reaches this conclusion by reasoning that the patent exhaustion doctrine only applies to sales made by the patentee or its authorized licensees and that Intel was not such an authorized licensee until the effective date of the LGE-Intel License.[2] However, in making this

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[2] LGE also claims support for this position in the Court's August 20, 2002 Order. However, while LGE is correct that the Court stated that its holding was limited to microprocessors and chipsets covered by the LGE-Intel License, the Court did not address the issue of whether

argument, LGE ignores the terms of the LGE-Intel License. According to the terms of the License, LGE released Intel and its customers from liability for any claim of patent infringement that arose prior to the effective date of the agreement to the extent that such claims would be precluded by the terms of the agreement after its effective date. After the effective date of the agreement, Intel is released from liability for infringement because it is a licensee and its customers, including Defendants here, are released from liability for infringement because they are purchasers from a licensee. Therefore, by the very terms of the agreement, Defendants cannot be liable for patent infringement for purchases made prior to the effective date of the agreement.

III. Neither the Patent Exhaustion Doctrine nor the Implied License Doctrine Precludes LGE from Pursuing its Method Claims

LGE argues that the patent exhaustion doctrine does not preclude it from alleging infringement of its method claims. In this, LGE is correct, as the Court stated in its August 20 Order. August 20 Order at 18-20 (noting that *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed.Cir.1984) and *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed.Cir.1999) hold that the sale of a device cannot exhaust the patentee's rights under a separate patent teaching a method of accomplishing a specific function).

Therefore, the Court must address the issue reserved in the August 20 Order, namely whether Defendants acquired an implied license to practice the claimed invention. To prevail on an implied license defense, the alleged infringer must show both that the device sold by the patentee has no reasonable, non-infringing use, and that "the circumstances plainly indicate that the grant of a license should be

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microprocessors and chipsets purchased before the effective date of the License are so covered because that issue was not before the Court.

inferred." *Bandag*, 750 F.2d at 925; *Met-Coil Sys. Corp. v. Korners Unlimited*, 803 F.2d 684, 686 (Fed.Cir.1986). This second requirement will be met if the patentee's actions lead the alleged infringer to believe that it has a license to use the invention and, in reliance on those actions, the alleged infringer practices the patent.

Here, the circumstances do not plainly indicate that a license was implied, because Intel expressly disclaimed the existence of such a license. Specifically, the record shows that Intel sent letters to Defendants in September, 2000 notifying them of the LGE-Intel License and informing them that "while this patent license that LGE granted to Intel covers Intel's products, it does not extend, expressly or by implication, to any product that you may make by combining an Intel product with any non-Intel product." Therefore, after they received this notice, Defendants cannot claim an implied license to practice any of LGE's method claims and patents.

CONCLUSION

With these clarifications, the Court reaffirms its Order of August 20, 2002, granting Defendants Asustek and Quanta's motion for summary adjudication of their claim that the patent exhaustion doctrine precludes them from being liable for infringement of LGE's device patents. With that Order and this Order, the Court also grants Defendants FIC and Compal's motion for summary adjudication of the same defense. Finally, the Court grants LGE's motion for summary adjudication of its claim that neither the patent exhaustion doctrine nor the implied license doctrine provides Defendants with a defense to LGE's claim that they infringed LGE's method patents.

IT IS SO ORDERED.

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

LG ELECTRONICS, INC., Plaintiff and Counterclaim Defendant

v.

BIZCOM ELECTRONICS, INC., COMPAL ELECTRONICS, INC., and SCEPTRE TECHNOLOGIES, INC., EVEREX SYSTEMS, INC., FIRST INTERNATIONAL COMPUTER, and FIRST INTERNATIONAL COMPUTER OF AMERICA, INC., Q-LITY COMPUTER, INC., QUANTA COMPUTER, INC., and QUANTA COMPUTER USA, INC., Defendants and Counterclaimants.

No. C 01-1375 CW, C 01-1594 CW, C 01-2187 CW, C 01-1552 CW

2004 U.S. Dist. LEXIS 29906

November 30, 2004, Decided
November 30, 2004, Filed

JUDGES: CLAUDIA WILKEN, United States District Judge.

OPINION BY: CLAUDIA WILKEN

ORDER ADDRESSING CROSS MOTIONS FOR SUMMARY JUDGMENT AND GRANTING DEFENDANTS' MOTION TO AMEND

Plaintiff and Counter-Defendant LG Electronics, Inc., (LGE) moves for summary judgment based on judicial estoppel that Defendants' Intel-based products infringe the

asserted method claims of U.S. Patent Nos. 5,077,733 ('733 patent), 4,918,645 ('645 patent), and 5,379,379 ('379 patent). Defendants Asustek Computer, Inc., and Asus Computer International, Inc. (Asustek);[1] Bizcom Electronics, Inc., Compal Electronics, Inc. and Sceptre Technologies, Inc. (Compal); First International Computer, Inc. and First International Computer of America, Inc. (FIC); Q-Lity Computer, Inc., Quanta Computer, Inc. and Quanta Computer USA, Inc. (Quanta); and Everex Systems, Inc. (Everex) oppose the motion, and cross-move for summary adjudication of non-infringement of the '733, '645 and '379 patents and non-infringement, invalidity and unenforceability of U.S. Patent No. 5,892,509 ('509 patent). Defendants further move for summary adjudication that LGE's claims for relief related to the '509 patent should be dismissed because Defendants are licensed or protected by license under the '509 patent.[2] LGE opposes these motions.

Defendants also move for summary adjudication that their sales to Hewlett Packard (HP) and its subsidiaries are licensed or protected by license under the '733, '379, and '645

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[1] The Court has since dismissed Plaintiff's claims against the Asustek Defendants on a stipulation by the parties.

[2] Defendants move to exclude the Expert Report of Dr. William R. Huber and the Supplemental Expert Report of Mr. Richard Goodin. The Court denies Defendants' motion with respect to the Huber Expert Report, but grants the motion with respect to the Goodin Supplemental Report, in light of LGE's previous representation to the Court, in opposing Defendants' request to adjust the deadline schedule, that it would timely file all expert reports.

Defendants also object to certain evidence submitted by LGE in support of its opposition to Defendants' motions for summary judgment. To the extent that the Court relies upon evidence to which there is an evidentiary objection, Defendants' objections are overruled. To the extent that the Court does not rely on such evidence, Defendants' objections are overruled as moot. LGE moves to strike Defendants' objections to evidence as impermissible extensions of the page limit for briefs. The Court denies LGE's motion to strike.

patents. LGE does not oppose this motion, and the Court accordingly grants it.

Defendants also move for reconsideration of the Court's April 21, 2003 Order Denying Motion to Amend Defendants' Final Invalidity Contentions and its October 22, 2003 Order Denying Motion to Amend Defendants' Answers and Counterclaims. Defendants seek to amend their answers, counterclaims, and final invalidity contentions to include additional evidence regarding allegedly invalidating prior art and unenforceability.[3] LGE opposes this motion.

The motions were heard on September 3, 2004. Having considered all of the papers filed by the parties and oral argument on the motions, the Court denies LGE's motion for summary adjudication of infringement of the '645, '733, and '379 patents. The Court grants Defendants' motions for summary adjudication of non-infringement of the '733, '645, and '379 patents, and grants Defendants' motion for summary adjudication that LGE's infringement claims under the '509 patent are barred by the non-assertion provisions of the LGE-Microsoft Agreement. However, the Court denies Defendants' motion for summary adjudication of invalidity and unenforceability of the '509 patent. In light of its finding of non-infringement, the Court denies as moot Defendants' motion for reconsideration.

BACKGROUND

Defendants in this case purchase microprocessors and chipsets from Intel or its authorized distributors and install them into computers that they manufacture.[4] Intel's production of the microprocessors and chipsets are covered by a License Agreement between LGE and Intel. LGE

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[3] Defendants represented at the hearing that they would move to dismiss their invalidity counterclaims if they were found not to infringe LGE's patents.

[4] To the extent that Defendants manufacture products using non-Intel microprocessors and chipsets, those products are not at issue in this Order.

contends that Defendants' incorporation of these microprocessors and chipsets into their computers infringes LGE's patents.

The patents-in-suit are diverse.[5] Both the '645 and the '379 patents relate to computer memory access and management. The '733 patent discloses a system that permits multiple computer devices alternating access to a system bus, and the '509 patent discloses a system that allows remote access to shared memory in a computer system.

The Court has addressed the LGE-Intel License in two previous orders. In its August 20, 2002 Order, the Court ruled that LGE's infringement claims were barred by the patent exhaustion doctrine to the extent the alleged infringement is based upon the authorized use of a licensed Intel component for its intended and sole purpose. In its February 6, 2003 Order, the Court reaffirmed and clarified its previous ruling, finding that the patent exhaustion doctrine protects Defendants from liability for infringement of LGE's apparatus and device claims, but that neither the patent exhaustion doctrine nor the implied license doctrine provide Defendants with a defense to LGE's claim that they infringe LGE's method patents. All of the asserted claims remaining in the case are method claims.

LEGAL STANDARD

Summary judgment is properly granted when no genuine and disputed issues of material fact remain, and when, viewing the evidence most favorably to the non-moving party, the movant is clearly entitled to prevail as a matter of law. Fed. R. Civ. Proc. 56; *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986); *Eisenberg v. Ins. Co. of N. Am.*, 815 F.2d 1285, 1288-89 (9th Cir. 1987).

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[5] The Court discussed LGE's patents in more detail in its August 20, 2002 Claim Construction Order.

Material facts which would preclude entry of summary judgment are those which, under applicable substantive law, may affect the outcome of the case. The substantive law will identify which facts are material. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986).

The moving party bears the burden of showing that there is no material factual dispute. Therefore, the Court must regard as true the opposing party's evidence, if supported by affidavits or other evidentiary material. *Celotex*, 477 U.S. at 324; *Eisenberg*, 815 F.2d at 1289. The Court must draw all reasonable inferences in favor of the party against whom summary judgment is sought. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986); *Intel Corp. v. Hartford Accident & Indem. Co.*, 952 F.2d 1551, 1558 (9th Cir. 1991).

Where the moving party does not bear the burden of proof on an issue at trial, the moving party may discharge its burden of showing that no genuine issue of material fact remains by demonstrating that "there is an absence of evidence to support the nonmoving party's case." *Celotex*, 477 U.S. at 325. The moving party is not required to produce evidence showing the absence of a material fact on such issues, nor must the moving party support its motion with evidence negating the non-moving party's claim. *Id.*; *see also Lujan v. Nat'l Wildlife Fed'n*, 497 U.S. 871, 885, 110 S. Ct. 3177, 111 L. Ed. 2d 695 (1990); *Bhan v. NME Hosp., Inc.*, 929 F.2d 1404, 1409 (9th Cir. 1991), *cert. denied*, 502 U.S. 994, 112 S. Ct. 617, 116 L. Ed. 2d 639 (1991). If the moving party shows an absence of evidence to support the non-moving party's case, the burden then shifts to the opposing party to produce "specific evidence, through affidavits or admissible discovery material, to show that the dispute exists." *Bhan*, 929 F.2d at 1409. A complete failure of proof concerning an essential element of the non-moving

party's case necessarily renders all other facts immaterial. *Celotex*, 477 U.S. at 323.

Where the moving party bears the burden of proof on an issue at trial, it must, in order to discharge its burden of showing that no genuine issue of material fact remains, make a prima facie showing in support of its position on that issue. *See UA Local 343 v. Nor-Cal Plumbing, Inc.*, 48 F.3d 1465, 1471 (9th Cir. 1994). That is, the moving party must present evidence that, if uncontroverted at trial, would entitle it to prevail on that issue. *See id.*; *see also Int'l Shortstop, Inc. v. Rally's, Inc.*, 939 F.2d 1257, 1264-65 (5th Cir. 1991). Once it has done so, the non-moving party must set forth specific facts controverting the moving party's prima facie case. *See UA Local 343*, 48 F.3d at 1471. The non-moving party's "burden of contradicting [the moving party's] evidence is not negligible." *Id.* This standard does not change merely because resolution of the relevant issue is "highly fact specific." *See id.*

DISCUSSION

I. Judicial Estoppel

LGE argues that it is entitled to summary judgment on all of its remaining infringement claims because Defendants are judicially estopped from asserting non-infringement. More specifically, LGE asserts that, in arguing that the patent exhaustion doctrine bars LGE's infringement claims, Defendants necessarily had to, and did, argue that there were no non-infringing uses of the accused devices. LGE argues that it would be inconsistent for Defendants to now argue that their use of Intel chipsets and microprocessors does not infringe. LGE's argument misconstrues the past proceedings in this case.

In its Patent Local Rule 3-1 Supplemental Disclosure, LGE alleged inter alia that Defendants' incorporation and use of certain Intel chipsets in Defendants' accused products necessarily caused these products to infringe LGE's asserted patents. In response to this allegation, Defendants

filed a motion for summary judgment, contending that to the extent that LGE was correct that Defendants' incorporation and use of certain Intel chipsets in Defendants' accused products caused Defendants' products to infringe, LGE's claims were barred by the patent exhaustion doctrine. In so moving, Defendants never conceded, and expressly reserved their right to contest, that use of the Intel chipsets caused Defendants to infringe. Instead, Defendants argued that even if the accused devices infringe the asserted claims, the patent exhaustion doctrine precludes them from being held liable for such infringement. The Court accepted Defendants' argument with respect to the asserted apparatus claims, but rejected it with respect to the asserted method claims.

However, nothing in either the Court's August 20, 2002 or February 6, 2003 Orders can be read as holding that Defendants did indeed infringe either the asserted apparatus or method claims. The Court merely held that if Defendants' incorporation and use of certain Intel chipsets caused their accused devices to infringe the patents-in-suit, the patent exhaustion doctrine protects Defendants from liability for any such infringement of the apparatus claims of the asserted patents. Defendants are free to argue that, contrary to LG's assertion, their incorporation and use of the Intel chipsets does not cause the accused devices to infringe the remaining method claims of the patents-in-suit.

For these reasons, the Court denies LGE's motion for summary adjudication of infringement of the '645, '733, and '379 patents.

II. '733 Patent

Defendants seek summary judgment of non-infringement of the asserted claims of the '733 patent. LGE opposes this motion.

The '733 patent discloses a rotating priority system that permits multiple computer devices alternating access to a system bus, i.e. the pathway over which the various

components of a computer system transmit data. *See, e.g.*, '733 patent claim 15 (claiming a "method for determining priority of access to a bus among a set of devices coupled to the bus"). Such a rotating priority scheme addresses the problem of "hogging," in which one frequently used component of a computer system monopolizes the system bus. *See* '733 patent, col. 1 ln. 49-58 (asserting that many prior art devices failed to prevent bus hogging). So long as the frequently used component is transmitting data, it can prevent other system components from carrying out necessary functions that require the transmission of data. The asserted claims of the '733 patent accomplish this by "counting a number of accesses by the device to the bus" and then "in response to predetermined number of accesses to the bus, giving another [device] the highest priority." '733 patent, claim 15.[6] A component remains the "anchor node" (i.e. the highest priority) until a counter reaches a preset number.

Defendants argue inter alia that none of the accused devices "count ... a number of accesses by the device to the bus" as required by the asserted claims. According to Defendants, the accused devices contain master latency timers, which count clock cycles, or time, not accesses, in order to control a device's tenure over the bus. Defendants assert that counting clock cycles is not the same as counting accesses. The Court already recognized as much in construing the claim limitation "counting a number of accesses by the device to the bus" to mean "counting the number of times a device gains use of the bus." Claim Construction Order at 41.

LGE does not dispute Defendants' factual assertion that the master latency timers in the accused devices count clock signals, but contends that the accused devices nevertheless practice the claim limitation at issue. See LGE's Opp. to

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[6] Claim 15 is the only asserted independent claim. Asserted claims 16-19 are dependent claims of claim 15.

Defs.' Summ. J. Mot at 8:18-22 (arguing that because the master latency timer increments by passage of clock signals and does so after a device gains ownership of the bus, the timer therefore counts the number of accesses). In support of this contention, LGE appears to continue to argue that counting clock signals is the same as counting accesses. However, in its Claim Construction Order, the Court considered and rejected this argument. More specifically, the Court noted that LGE proposed to construe the claim limitation of "counting a number of accesses by the device to the bus" to mean "counting a number of clock signals, each clock signal indicating that an access by the device to the bus has occurred." Claim Construction Order at 39. The Court rejected this proposed construction in favor of that advanced by Defendants, namely "counting the number of times a device gains use of the bus." *Id.* at 41. This is so even if the counter increments in a manner responsive to clock signals, as in the preferred embodiment, programmable node grant counter (NGCNT) 720(1). *Id.* at 40. Thus, LGE cannot establish that the accused devices infringe without establishing that the accused devices count the number of accesses to the bus.

LGE also makes the narrower assertion that the accused devices practice the claim limitation at issue, in that the master latency timers only increment when there has been an access to the bus, despite their reliance upon clock signals to determine the number of times that the bus has been accessed. This contention is consistent with the Court's claim construction, which held that the claim limitation required the counting of accesses to the bus, but did not address how the number of accesses must be counted. However, LGE has offered no evidentiary support for the position that the master latency devices increment when and only when there has been an access to the bus, and Defendants have offered evidence that the master latency timers will continue to increment even when there has not been a new access to the bus. *See* Horst Expert Rep. at 11-16. Because LGE has offered no evidence that the

accused devices count the number of accesses to the bus, the Court grants Defendants' motion for summary judgment of non-infringement of the '733 patent.

III. '645 Patent

The '645 patent discloses a technique for high-speed retrieval and transfer of large amounts of data over a system bus through a process called "page mode memory access." Page mode memory access teaches assertion of an entire row of data followed by the assertion and deassertion of multiple column addresses. According to the patent's method, a requesting agent and a replying agent communicate over the system bus. '645 patent at 10:17-23. A "plurality of memory address control signals" are used to respond over the bus to requests for accessing the memory. *Id.* at 10:29-33. The patent specifies that these control signals are comprised of row address strobe signals and column address strobe signals. *Id.* at 10:33-36. A strobe signal is a signal set by an agent on the bus at the time that the data is ready to be read. Thus, a strobe signal is set in response to particular conditions, rather than at regular intervals. A strobe signal differs from a clock signal, which can also be used to time access to memory, because a clock signal is a signal set at regular intervals by the system clock.

Defendants argue that the accused SDRAM devices do not infringe asserted claims 1 and 12 because the accused devices do not use the claimed strobe signals. LGE disputes this position, contending that (1) the accused SDRAMs use strobe signals for communications inside the chip and (2) the clock signals used by the accused SDRAMs for communications between the system bus and the SDRAM chip function as strobe signals under certain conditions. LGE's first contention is insufficient as a basis for an infringement claim because both of the asserted claims require that a system bus be involved in the communication at issue, and there is no system bus inside the SDRAM chip. Therefore, whether the accused SDRAM chips use strobe signals to access memory internally is irrelevant, because

they are not doing so over a system bus. LGE's second contention fails because a clock signal is simply not a strobe signal. A clock signal is set at regular intervals by the system clock; a strobe signal is set by another device on the bus in response to certain conditions. That a clock signal may happen to be set at the same time that a strobe signal would have been set is not sufficient to make a clock signal into the strobe signal required by the asserted claims. For these reasons, the Court grants Defendants' motion for summary judgment of non-infringement of the '645 patent.

IV. '379 Patent

Defendants seek summary judgment of non-infringement of the asserted claims of the '379 patent. LGE opposes Defendants' motion.[7]

The '379 patent presents a technique for transmitting simultaneous read and write requests in a manner that prevents the "reading" of data from main memory when that data is the subject of a pending write request. This ensures that a data read reflects the current state of the data. *See* '379 patent, col. 1 ln. 16-60. As the Court explained in its Claim Construction Order,

> A read request is a request from a device connected to a bus to read data from main memory. A write request is a request from a device connected to a bus to write data to main memory. The '379 patent teaches a way of controlling the order in which read and write requests to memory are executed. It discloses allowing read requests to proceed ahead of write requests unless doing so would result in "stale" data being returned from memory.

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[7] LGE has narrowed its infringement allegations to accuse only those devices that incorporate the Solano ("815"), Whitney ("810"), Almador ("830"), or Montara ("855") Intel chipsets.

> In the '379 patent, read and write requests pass through a memory controller on their way to main memory. The memory controller includes read and write "buffers" which store read and write requests before transmitting them to main memory. The memory controller compares the targeted memory address of each incoming read request to the target addresses of all buffered write requests. A read address that does not have a match in the write buffer will not be performed. However, if the memory controller finds a match, it will perform the buffered write request first, then the corresponding read request to assure that the device does not read "stale" data from main memory.

Claim Construction Order 42-43. The asserted claim of the '379 patent discloses a method for accomplishing this goal that includes the steps of "buffering write requests" and "buffering read requests" as they are received from the system bus; "comparing when received each read address against buffered write addresses, if any, to determine if a received read address has an address value within a predetermined range of address values of a buffered write address;" and then, "if a received address is determined not to be within the predetermined range of addresses of any buffered write addresses," "first executing in sequence all buffered read requests; and then executing in sequence all buffered write requests;" or "else if a received address is determined to have an address value within the predetermined range of address values of any buffered write address," then "first executing in sequence all buffered read requests up to but not including the received read request which was determined to be within the predetermined range; then executing all buffered write requests; and then executing the buffered read request which was determined to be within the predetermined range." '379 patent claim 7.

Defendants argue inter alia that they do not literally infringe asserted claim 7 of the '379 patent. Defendants point to the testimony of LGE's expert, Dr. William K. Hoffman, in which he admitted that in certain circumstances the accused devices do not execute all buffered write requests prior to executing the pending read request as required by claim 7. Fox Decl. Exh. 20 (Hoffman Depo. 723:15-724:10, 726:15-727:1, 734:20-735:18, 738:21-739:21). LGE does not deny that Hoffman so testified, but asserts that Hoffman also testified that in other circumstances the accused devices do execute all buffered write requests prior to executing the pending read request as required by claim 7; and thus infringe.[8] *See* Hoffman Decl. PP 4-24.

LGE is correct that, as a general matter, an accused device that "sometimes, but not always, embodies a claimed method nonetheless infringes." *Bell Communications Research, Inc. v. Vitalink Communications Corp.*, 55 F.3d 615, 622 (Fed. Cir. 1995). Here, however, the accused devices, as described by LGE, cannot literally infringe because they never practice the claimed method. More specifically, the asserted claim describes a method for handling "each read address" received by the memory control unit in which the memory controller is required to respond to each received read address in one of two defined ways. '379 patent claim 7. Thus, the asserted claim delimits the universe of possible responses to "each" read address received, in the form of an "if a, then b but if x, then y" instruction. However, the accused devices, as described by LGE, respond to some of the read addresses received by the memory control unit by performing an action other than that which the asserted claim specifies must be performed. For this reason, the accused devices do not literally infringe.

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[8] Because the Court finds that Defendants do not infringe the *'379 patent*, the Court need not address Defendants' objection that Hoffman's Declaration contradicted his earlier deposition testimony.

LGE contends, however, that even if the accused devices do not literally infringe, a jury could find that they infringe under the doctrine of equivalents, in that there is evidence from which a reasonable jury could find that the accused devices perform "substantially the same function in substantially the same way to achieve substantially the same result." *Graver Tank & Mfg. Co. v. Linde Air Prods Co.*, 339 U.S. 605, 608, 70 S. Ct. 854, 94 L. Ed. 1097, 1950 Dec. Comm'r Pat. 597 (1950). More specifically, LGE asserts that the asserted claim's requirement that all buffered write requests be executed prior to the execution of the pending read request is substantially met when the accused devices execute buffered write requests up to the one that matches an incoming read request. Hoffman Decl. PP 25-28. In other words, to continue the analogy, LGE is claiming that the accused devices infringe under the doctrine of equivalents because when x is met, the accused devices perform y', which is equivalent to y.

Defendants respond that the accused devices' behavior cannot be considered equivalent, because the accused devices' execution of "some" buffered write requests simply cannot be the equivalent of the asserted claim's requirement for how "all" buffered write requests should be executed. Courts have determined non-equivalence as a matter of law where a finding of equivalence would vitiate the terms of the claim. *See Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1373-74 (Fed. Cir. 2003) (noting vitiation of claim requirement if device supplying "some" power when on-hook was equivalent to supplying power "only" when off-hook); *Moore U.S.A., Inc. v. Standard Register Co.*, 229 F.3d 1091, 1105-06 (Fed. Cir. 2000) (holding that a "majority" cannot be equivalent to "minority"). Here, the asserted claim discloses a method in which "each" read address is treated according to one of two alternative procedures that specify treatment of "all" buffered requests. Even accepting arguendo LGE's expert's opinion, the Court finds as a matter of law that there is no equivalence.

V. '509 Patent

A. Microsoft License Agreement Non-Assertion Provision

Defendants move for summary judgment with respect to the '509 patent inter alia on the basis that LGE is barred from asserting its claims under the '509 patent by a License Agreement between it and Microsoft. The '509 patent discloses a system that allows remote access to shared memory in a computer system. The '509 patent purports to allow multiple computer users in multiple locations to work simultaneously on the same computer document. LGE accuses computers that are shipped with Microsoft NetMeeting's Whiteboard application in conjunction with basic computer components such as a CPU and either a "power supply unit" (claim 45) or a "facsimile unit" (claim 51).

Defendants contend that LGE's claims are barred by the non-assertion provision of the Agreement, which provides that, "as partial consideration for the rights" granted to LGE under the Agreement, LGE "agrees not to (A) sue or (B) bring, prosecute, assist or participate in any judicial, administrative or other proceedings of any kind against MS [Microsoft], its Suppliers, their subsidiaries, or their licensees (including without limitation OEM customers and end users) for infringement of [LGE's] Patents." Fox Decl. Ex. 53, License Agreement at P 12(d)(i).

LGE responds that the non-assertion provision is inapplicable under the facts presented here because it applies only to infringement that occurs "on account of the manufacture, use, sale or distribution" of "any releases of the product(s) licensed to [LGE] under the License Agreement," *id.*, and Defendants' infringement is not "on account of" the Whiteboard software. More specifically, LGE contends that the alleged infringement cannot be "on account of" the Whiteboard software because the Whiteboard software does not practice all of the elements of the asserted claims, which also disclose use of either a

"power supply unit" (claim 45) or a "facsimile unit" (claim 51) and other basic components of personal computers (e.g., "a CPU"). However, as Defendants point out, it is undisputed that LGE only claims that Defendants' products infringe when they are running the Whiteboard software. Because there is no alleged infringement without the Whiteboard software, Whiteboard does not merely "play [a] role" in infringement. LGE's Opp. at 21. Infringement is clearly alleged "on account of" the Whiteboard software. This conclusion is further supported by the fact that, as LGE admits, all the other limitations at issue are common components of every personal computer.

LGE further responds by asserting that if the Agreement is as broad as this interpretation would have it, the Agreement is unenforceable on public policy grounds. Essentially, LGE claims that it would only have entered into such a broad agreement under the compulsion of Microsoft's monopoly power. However, LGE has not proffered sufficient evidence of this contention to support a finding that the Agreement is unenforceable on public policy grounds.

Finally, LGE contends that the Agreement does not bar its claims against the Quanta, Compel, and FIC Defendants, because they are not Microsoft "licensees (including without limitation OEM [original equipment manufacturer] customers and end users)." Agreement P 12(d)(i). These Defendants are undisputedly third party installers, who put together computers pursuant to agreements with OEM customers such as HP or Toshiba. However, LGE provides no rationale for finding the third-party installer Defendants, who are licensed to install Microsoft products for Microsoft consumers under valid agreements with OEM customers, not covered by the Agreement's non-assertion provision that protects all other producers and users of Whiteboard "without limitation." The Court therefore finds that LGE's infringement claims under the '509 patent are barred for the reasons above.

B. Validity

Defendants move for summary adjudication that the '509 *patent* is invalid because it violates 35 U.S.C. § 112's written description requirement, based on the alleged addition of new matter during prosecution and a failure of the specification to support newly added claims.

A patent and each of its claims are presumed to be valid, and the party asserting invalidity bears the burden of proving otherwise. 35 U.S.C. § 282. The Federal Circuit has held that patent invalidity must be demonstrated by clear and convincing evidence. *National Presto Indus. v. The West Bend Co.*, 76 F.3d 1185, 1189 (Fed. Cir. 1996); *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1360 (Fed. Cir. 1984). Defendants, therefore, have the burden to establish by clear and convincing evidence that the '509 patent is invalid.

First, Defendants argue that the '509 patent is invalid because the inventors added "new matter" during the patent's prosecution, in violation of 35 U.S.C. §§ 132 and 112. The written description requirement is satisfied if persons of ordinary skill in the art at the time the application was filed would recognize from the application that the inventor actually invented the full scope of the invention as finally claimed in the patent. *Chiron Corp. v. Genentech, Inc.*, 363 F.3d 1247, 1259 (Fed. Cir. 2004).

During the prosecution of the '509 patent, the inventors made a series of changes that resulted in the addition of Figure 5, including adding a "Communication Control Unit" structure (58A and 58B) preferably comprised of a CPU (62A and 62B) and a partitioned memory system (60A and 60B). *See* '509 patent Fig. 5 and 13:67-14:2. In contrast, the Original Application did not include Figure 5, and included only general references to a "Main CPU Unit" with "memory" divided using "partitioning" techniques. Klein Decl. P 8 and Ex. 4, Original Application. Defendants provide no evidence to dispute LGE's expert's assertion that one of ordinary skill in the art at the time would have

recognized that the Original Application already disclosed the "Communication Control Unit" as claimed in Figure 5. Klein Decl. P 10. Therefore, Defendants have not meet their burden to prove that the addition of Fig. 5 and the phrase "Communication Control Unit" constituted new matter in violation of 35 U.S.C. §§ 132 and 112.

LGE's expert's opinion is not incompatible with the Court's construction of the term "control unit for controlling the communication unit" to mean specifically "control unit 58A/58B ..." *See* August 20, 2002 Order at 58-59. Though the Court's construction requires that the control units must control communications and preferably be comprised of CPU and partitioned memory, according to LGE's expert all of these basic elements were contained in the Original Application as understood by one of ordinary skill in the art at the time.

Second, Defendants argue that the '509 patent is invalid because the addition of claims disclosing a workstation configuration with only one display impermissibly broadened the patent beyond the specification. It is true that the use of multiple displays on each image processing workstation is a significant purpose of the invention. *See, e.g.*, '509 patent at 3:34-36 (one objective of the invention "is to provide an overlay mode that enables overlays of any combination of images, graphics, or text"). Defendants point to Claim 4 as an example of such an unsupported claim. *See* '509 patent at 15:13-17 (disclosing an image processing system "wherein the first display displays a graphic image, and wherein the second display displays textual information"). However, Claim 4's disclosure of two displays with only one image of text is supported by other aspects of the invention, e.g., allowing users to communicate about or edit an image or text. Defendants provide no evidence to suggest that one skilled in the art would not recognize Claim 4 as supported by this and other alternative aspects of the specification. For these reasons, Defendants'

motion for summary judgment of invalidity of the '509 patent is denied.

CONCLUSION

For the foregoing reasons, the Court DENIES LGE's motion for summary adjudication of infringement of the '733, '645, and '379 patents (Docket No. 662 in Case 01-1375, No. 652 in 01-1594, No. 616 in 01-2187, and No. 572 in 01-01552). The Court GRANTS Defendants' motion for summary adjudication of non-infringement of the '733, '645, and '379 patents; GRANTS Defendants' motion for summary adjudication that the infringement claims under the '509 patent are barred; DENIES as moot Defendants' motion for summary adjudication of non-infringement of the '509 patent; DENIES Defendants' motion for summary adjudication of invalidity and unenforceability of the '509 patent; and GRANTS Defendants' unopposed motion for summary adjudication that Defendants' sales to HP and its subsidiaries are licensed or protected by license under the '733, '379, and '645 patents (Docket No. 694 in Case 01-1375, No. 684 in 01-1594, No. 649 in 01-2187, and No. 604 in 01-1552).

The Court DENIES Defendants' motion to exclude the Huber Expert Report but GRANTS Defendants' motion to exclude the Goodin Supplemental Expert Report (Docket No. 683 in Case 01-1375, No. 673 in 01-1594, No. 638 in 01-2187, and No. 593 in 1-1552). The Court DENIES LGE's motion to strike Defendants' objections to evidence (Docket No. 742-in Case 01-1375, No. 735 in 01-1594, No. 700 in 01-2187, and No. 655 in 1-1552).

The Court DENIES as moot Defendants' motion for reconsideration (Docket No. 769 in Case 01-1375, No. 760 in 01-1594, No. 724 in 01-2187, and No. 679 in 01-1552) and VACATES as moot Defendants' motion for summary judgment of invalidity of the '645 patent (Docket No. 818 in Case 01-1375, No. 807 in Case 01-1594, No. 772 in Case 01-2187, and No. 725 in Case 01-1552) and the hearing scheduled for December 3, 2004.

The Court instructs the parties to meet and confer in an attempt to reach an agreement on the terms of a stipulated dismissal of the remaining counterclaims. If the parties are unable to agree, Defendants shall file a motion to dismiss their remaining counterclaims within two weeks of the date of this Order. The parties shall also meet and confer in an attempt to identify the remaining issues in the case, if any, and a proposed schedule for resolving those issues. The parties shall file a joint report within two weeks of the date of this Order.

IT IS SO ORDERED.

Dated: November 30, 2004

CLAUDIA WILKEN
United States District Judge

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

LG ELECTRONICS, INC.,
Plaintiff-Appellant,

v.

BIZCOM ELECTRONICS, INC., COMPAL ELECTRONICS, INC., and SCEPTRE TECHNOLOGIES, INC., Defendants-Cross Appellants, and EVEREX SYSTEMS, INC., Defendant-Appellee, and FIRST INTERNATIONAL COMPUTER INC. and FIRST INTERNATIONAL COMPUTER OF AMERICA, INC., Defendants-Cross Appellants, and Q-LITY COMPUTER, INC., QUANTA COMPUTER, INC., and QUANTA COMPUTER USA, INC.,
Defendants-Cross Appellants.

05-1261, 05-1262, 05-1263, 05-1264, 05-1302, 05-1303, 05-1304

2006 U.S. App. LEXIS 23211

September 1, 2006, Decided
September 1, 2006, Filed

ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the Cross-Appellant,* and the petition for rehearing, having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc having been referred to the circuit judges who are in regular active service,

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* The petition was filed by all the Cross-Appellants.

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on September 8, 2006.